



# city of palo alto

comprehensive  
annual  
financial  
report  
for the  
fiscal year ended  
june 30, 1998



# CITY OF PALO ALTO

C A L I F O R N I A



# Comprehensive Annual Financial Report

for the  
Fiscal Year Ended  
June 30, 1998

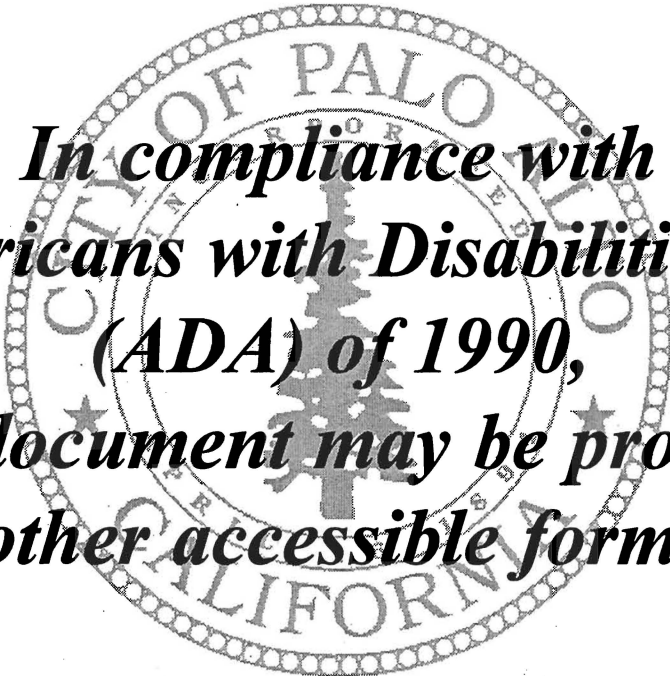


*prepared by the*  
**Administrative Services Department**





# AMERICANS WITH DISABILITY ACT STATEMENT

The seal of the City of Palo Alto, California, is a circular emblem. It features a central tree, likely a redwood, with a star above it. The words "CITY OF PALO ALTO" are written in an arc at the top, and "CALIFORNIA" is written in an arc at the bottom. The seal is partially obscured by the text of the statement.

*In compliance with  
Americans with Disabilities Act  
(ADA) of 1990,  
this document may be provided  
in other accessible formats.*

*For information contact:*

Fred Herman  
City of Palo Alto  
250 Hamilton Avenue  
(650) 329-2550  
(650) 328-1199 (TDD)



CITY OF PALO ALTO, CALIFORNIA

Comprehensive Annual Financial Report  
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# CITY OF PALO ALTO

## City Officials

June 30, 1998

### City Council

Dick Rosenbaum, *Mayor*

Micki Schneider, *Vice Mayor*

Sandy Eakins

Liz Kniss

Gary Fazzino

Dena Mossar

Joseph Huber

Victor Ojakian

Lanie Wheeler



#### *Finance Committee*

Lanie Wheeler, *Chair*

Joseph Huber

Dena Mossar

Victor Ojakian

#### *Policy and Services Committee*

Gary Fazzino, *Chair*

Sandy Eakins

Liz Kniss

Micki Schneider



### Council-Appointed Officers

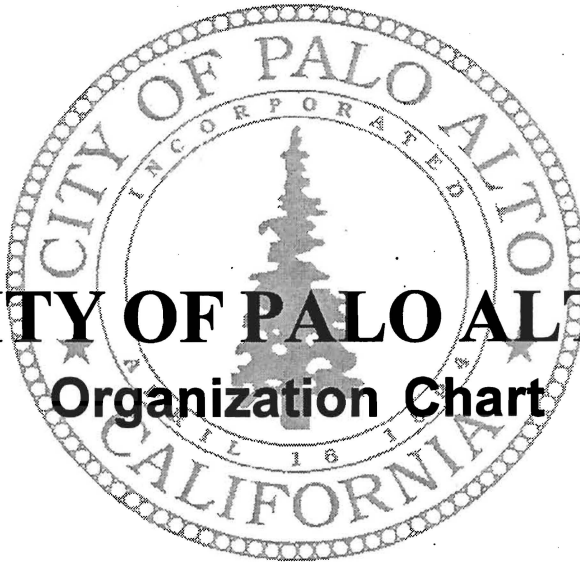
June Fleming  
*City Manager*

Ariel Calonne  
*City Attorney*

Gloria L. Young  
*City Clerk*

William Vinson  
*City Auditor*



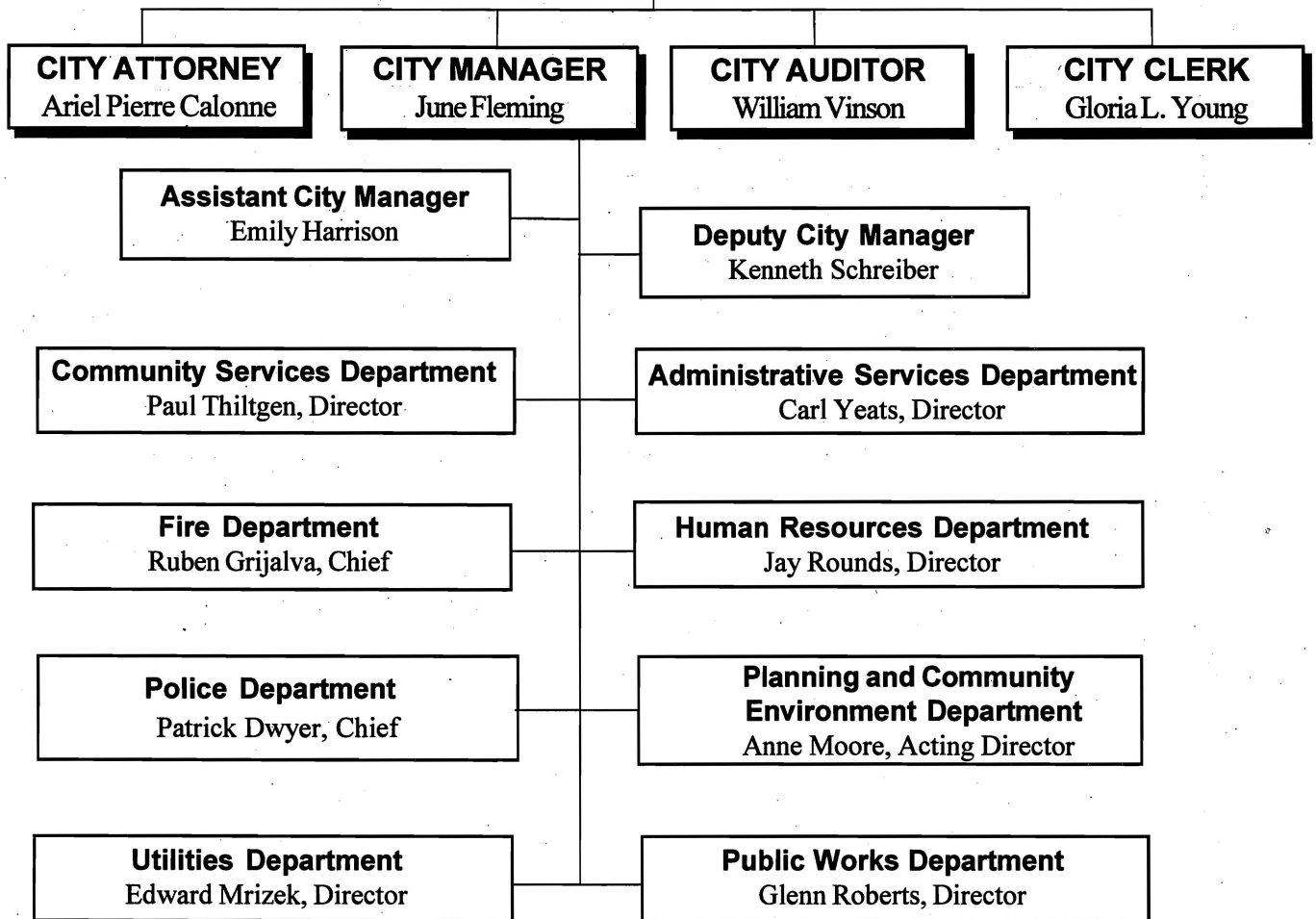


# CITY OF PALO ALTO

## Organization Chart

Palo Alto Residents

City Council

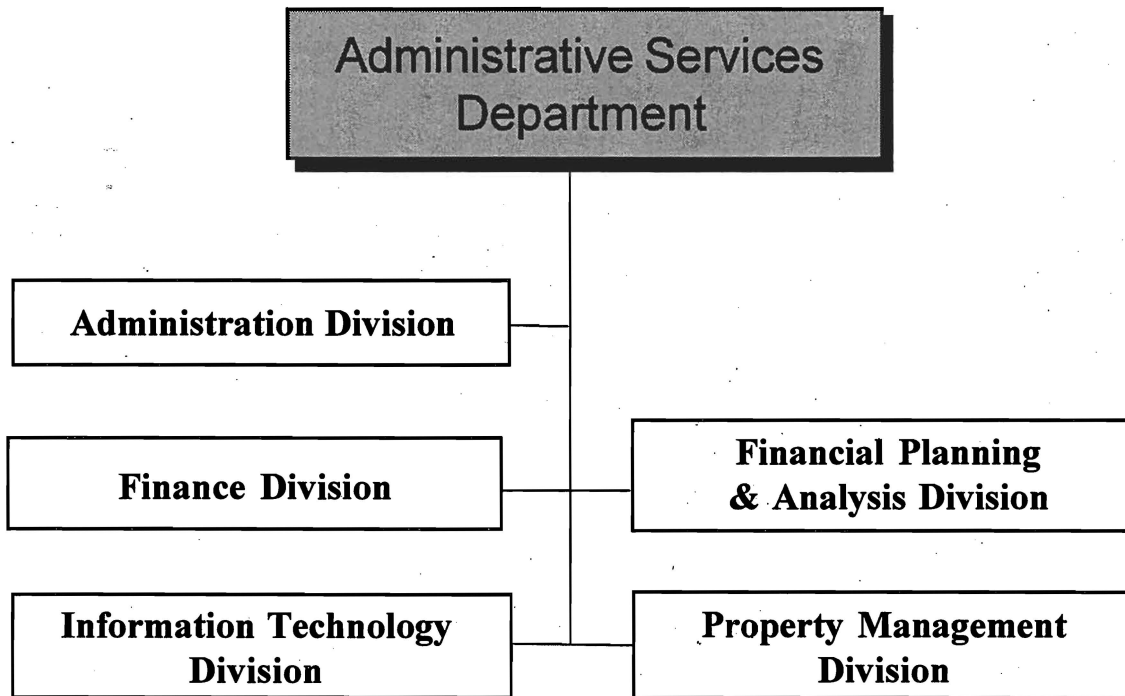


# CITY OF PALO ALTO CALIFORNIA



## *Organizational Chart*

for the



### **Mission Statement**

To provide proactive administrative and technical support to City departments and decision makers, and to safeguard and facilitate the optimal use of City resources.



December 1, 1998

THE HONORABLE CITY COUNCIL  
Palo Alto, California

Attention: Finance Committee

**COMPREHENSIVE ANNUAL FINANCIAL REPORT, YEAR ENDING JUNE 30, 1998**

Members of the Council:

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1998, including the opinion of Maze & Associates, is submitted for Council review, in accordance with Article IV, Section 13 of the City Charter. Although Maze & Associates has expressed an opinion on this report based upon its recent audit, responsibility for both the accuracy of the data and the fairness of the presentation, including all disclosures, rests with the City's management. To the best of staff's knowledge and belief, the information contained in the report is accurate in all material respects and is reported in a manner that presents fairly the financial position and the results of operations of the various funds, account groups and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

The report is divided into three sections:

- I. **Introductory Section:** This section transmits the CAFR to the City Council and includes the City's organization chart, a table of contents, and reproduced copies of previous year's certificates and awards.
- II. **Financial Section:** This section includes:

The Independent Auditor's Report - The City Charter requires an annual audit of the financial statements of all City funds and accounts by an independent, certified public accountant. This year's audit was completed by Maze & Associates.

General Purpose Financial Statements - This section contains the general purpose financial statements (GPFS), also known as the combined financial statements, which reflect a complete summary of the City's activities and encompass all fund types and account groups. They present a combined overview of the financial position, cash flows of proprietary funds, and operating results for the completed fiscal year. This section also includes the Notes to the Financial Statements which communicates information necessary for fair presentation of financial position and results of operations that are not readily apparent or cannot be included in the financial statements themselves. GPFS are "liftable", and may be issued separately from the CAFR for inclusion in official statements, bond offerings, or for distribution to users requiring less detailed information than is contained in the complete CAFR.

Combining Fund Statements - This section presents combined and individual fund and account group statements and schedules. Combined financial statements are presented in each instance where the City has more than one fund of a given type (e.g., the Enterprise Funds). Individual fund statements and schedules are presented for certain individual funds and account groups where the City has only one fund of a specific type (e.g., the Capital Projects Fund) or to give more detailed information than is presented in the GPFS.

- III. Statistical Section: This section presents comparative statistical data for the past ten years and other pertinent information involving taxes, revenues, expenditures, and bonded debt.

### **LOCAL ECONOMIC CONDITION AND OUTLOOK**

Located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco, Palo Alto was named by an early Spanish exploration party for the tall, twin-trunked redwood tree they camped beneath in 1769. The City has a population of 60,500, is part of the San Francisco Bay metropolitan area and lies in the heart of Silicon Valley. Palo Alto is adjacent to one of the nation's most prestigious higher education institutions, Stanford University. Stanford University has been important to the economic development of the City, providing a foundation for high-technology research and service industries at the Stanford Research Park. The City is home to many large and small electronics, computer

hardware and software, and biotechnology firms, with the largest employers including Hewlett-Packard, Varian Associates, Loral, Sun Microsystems, Lockheed Martin, Watkins-Johnson, and Xerox. In 1997-98, the number of jobs in Palo Alto totaled approximately 90,500. The success and growth of technology firms in the area has resulted in a low unemployment rate of 1.5 percent in 1998. The City is one of the area's most desirable residential communities, providing about 25,701 housing units. Assessed valuation has been increasing at a healthy pace, averaging 3.6 percent annually during the last five years, jumping to 8.3 percent in 1997-98, with a total value of \$8.8 billion. Vacancy rates for commercial properties are very low at 1.3 percent, with rental rates in downtown Palo Alto comparable to neighboring downtown San Francisco. The City is also an important retail center. The downtown area and the Stanford Shopping Center draw shoppers from all over the San Francisco Bay Area, with per capita retail sales at 297 percent and 255 percent of the State and national averages, respectively. While the State faced an economic downturn in the early 1990's, the City's economy remained flat during the same period, and has since boomed economically. Based on the strength of the high technology businesses that drive the local economy and the diversity of the City's revenue base, the economic outlook for the City points to continued stability.

### **REPORTING ENTITY**

For financial reporting purposes, and in conformance with Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity", the City of Palo Alto's financial statements include all component units that are financially accountable to the City or whose relationship with the City is so significant that failure to include them in the City's financial statements would make the statements misleading or incomplete. Financial accountability is determined based upon: 1) the City's substantive authority for appointing the governing board; 2) the City's ability to impose its will on the organization's operations; 3) the organization's ability to provide financial benefits or place a financial burden on the City; and 4) fiscal dependence on the City. Accordingly, the City's general purpose financial statements include the City of Palo Alto Golf Course Corporation and the Palo Alto Public Improvement Corporation as component units. Although the Corporations are not agencies of the City, the City maintains ultimate control over the policies and actions of the Corporations through its ability to appoint directors.

### **GOVERNMENT ORGANIZATION**

The City of Palo Alto was incorporated in 1894. Its first charter was granted by the State of California in 1909, and Palo Alto continues to operate as a charter city. Municipal operations are conducted under the council-manager form of government. The nine Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected

annually at the first Council meeting in January. The Mayor presides over all Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council.

### **SERVICES PROVIDED**

The City provides a full range of municipal services. These include: police, fire, general administration, public works, planning, building, transportation, library, golf, arts, science, recreational and human services. In addition, the City maintains municipal electric, water, gas, wastewater collection, wastewater treatment, storm drainage, and refuse utilities for the benefit of Palo Alto residents and businesses. The City's parks, recreation and cultural facilities are outstanding. The City owns over 36 parks, totaling more than 4,000 acres, a golf course, four community centers, a Cultural Center, a Community Theater, a Children's Theater, and a Junior Museum. The City offers a wide array of social, recreational and cultural events, including human services for seniors and youth, subsidized child care, classes, concerts, exhibits, team sports and special events. The City and the Palo Alto Unified School District (PAUSD) have an agreement to jointly fund the costs of maintaining and rehabilitating school athletic fields, recognizing the significant recreational use of these facilities by the community. In addition, the City offers a high level of library and public safety services. Palo Alto has 6 libraries and 8 fire stations providing services throughout the community.

### **ACCOUNTING SYSTEM AND INTERNAL CONTROL**

In developing and evaluating the City's accounting system, primary consideration has been given to the adequacy of the internal control structure. The structure has been designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure the reliability of accounting records for preparing financial statements and maintaining accountability for assets. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of internal controls should not exceed the benefits likely to be derived; and 2) the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary control is maintained by an annual appropriation ordinance, which is amended by Council action, as required, throughout the year. In 1990, the Council adopted a two-year budget plan. Budgets for the period are presented to Council for review, comment, and action. Council votes to formally approve the first year's budget and conceptually approve the second year's budget. Formal adoption of the second year budget occurs the following



June. The City is required under the terms of Proposition 4 (Gann) to adhere to an annual appropriation limit, necessitating the two-step budget adoption procedure. The Council takes similar action on the first two years of the Five-Year Capital Improvement Program (CIP). The 1997-98 Budget was presented as a one-year budget, because the City was awaiting adoption of a new Comprehensive Plan and the implementation of an augmented infrastructure replacement and maintenance plan, containing budget implications requiring integration into a two-year budget plan.

In 1995-96, the City adopted a new budget format called mission driven budgeting. This approach emphasizes the clear presentation of services provided to the public, the costs associated with those services, and impact measures to evaluate staff's performance in delivering services. With this knowledge, Council is better able to prioritize and allocate resources in the budget process and evaluate management's performance.

The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is by department in the General Fund and by fund for the Special Revenue, Debt Service Fund, Enterprise, and Internal Service Funds. Expenditures for the Capital Projects Fund are budgeted and managed at the project level. The City utilizes an encumbrance system to track purchase orders as they are issued, and corresponding appropriation amounts are reserved for later payment to avoid over commitment of funds. Budgets are adopted by the City Council for all funds except for the Trust and Agency Funds.

## **SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**

### **Council Priorities**

The City Council selected three priorities on which to focus in 1997-98: Infrastructure, Traffic Management and Safety, and the Revitalization of Neighborhood and Business Districts.

**Infrastructure:** For several years the Council has expressed concern about the condition of the City's aging General Fund infrastructure and the level of funding devoted to its rehabilitation and maintenance. Through a series of reports, staff has provided Council with information on buildings, streets, sidewalks, transportation, parks and open space infrastructure needs. These reports identified \$95.0 million in infrastructure replacement and maintenance needs over the next ten years. In June 1998, Council approved an Infrastructure Management Plan, which provided a methodology for prioritizing and financing the infrastructure needs. The projects emerging from this plan will be folded into the 1999-2001 capital budget. The financing plan includes the utilization of the City's General Fund

Infrastructure Reserve, which was established in 1996-97. The reserve is funded when General Fund revenues exceed expenses and are in excess of amounts set by Council policy for the Budget Stabilization Reserve (BSR). At June 30, 1998, the Infrastructure Reserve totaled \$12.6 million.

In 1997-98, the City began constructing Golf Course Master Plan improvements which include upgrading five fairways and various sand traps, trees, and greens, constructing new storm drain facilities, replacing the irrigation system, upgrading the driving range, and installing new cart paths. It is anticipated that the golf course construction will be complete in late spring of 1999.

Traffic Management and Safety: For several years, a high priority has been placed upon addressing congestion, speed and traffic safety issues throughout the City. To that end, staff developed a plan to improve traffic signal timings for most of the signals under the City's jurisdiction and substantially completed a Citywide School Commute Safety Study in 1997-98. In addition, work was initiated on several key projects, including a planning and design study for a community-based local bus shuttle system and a Residential Arterial Calming Program for Embarcadero Road. An evaluation of the existing traffic signal control system was also started, which will include the transition to a system that will not only operate the traffic signals, but will be able to provide traffic monitoring and reporting information. A citywide program is also underway to replace aging and broken bike lockers; approximately half of the City's bike lockers have already been replaced, including all of the lockers in the California Avenue area.

Council also approved the establishment of a secured bicycle parking facility at the University Avenue Caltrain station. The facility will be staffed seven days a week and provide securing bicycle parking at the station. There would be no cost to the bicycle rider, which will encourage bicycle commuting and transit use. An operator has been selected to construct, staff and administer the facility. Staff anticipates the facility will open in early 1999.

The Police Department has fully implemented the motorcycle enforcement team, initiated a red light enforcement effort and educational campaign, and increased enforcement efforts at locations where there are higher-than-normal accident rates.

Revitalization of Neighborhoods and Business Districts: During 1997-98, revitalization of the Midtown shopping area continued. Several new tenants, including a Long's drug store, are locating in the Midtown area. The renovation of building exteriors and landscaping, which will contribute to the vitality of the area, continues to progress, fueled by private investment.

Since 1996, the City has been working to develop a plan for the reuse of the Palo Alto Medical Foundation site (South of Forest Avenue area). The City Council appointed a 14-member working group to advise the City on the preparation of the plan. In 1997-98, three concept plans were presented to Council, each of which explored options for development of the area. Preparation of a final Coordinated Area Plan for the South of Forest Avenue Area is underway. Staff expects to bring a Coordinated Area Plan to the Council for review and approval in 1998-99.

### **Flooding Emergency**

On February 2-3, 1998, a major storm hit Palo Alto, resulting in an unprecedented level of flooding. The City incurred over \$2 million in flood-related expenses, including emergency response, repair of damaged public property and recovery assistance to residents. The severity of the storm prompted a Presidential Declaration of Emergency for Palo Alto and other Bay Area cities. In late February 1998, the City filed a claim with the State Office of Emergency Operations and the Federal Emergency Management Agency (FEMA) to seek reimbursement for the damages sustained. The City has been notified by FEMA that \$.5 million of the claim has been approved. The remainder of the claim is currently being processed.

To prepare for future disasters, the City has identified a number of opportunities to improve its emergency response capabilities. Many of these opportunities have already been addressed. These include: the installation of a weather station in Foothills Park to gather and transmit rainfall data and to provide valuable information during the wildland fire season; the installation of creek monitoring equipment at San Francisquito, Adobe and Matadero Creeks; the procurement of an Emergency Notification System to alert large portions of the City to impending disaster; and upgrades to the City's Emergency Operation Center. A number of improvements will be incorporated into the implementation of the City's Emergency Management Plan. These include: a comprehensive public awareness and education program, initiatives to improve training for emergency response staff; and plans for improved volunteer coordination. The City has also focused its efforts on the development of long-term flood prevention solutions. The City joined with other jurisdictions to create the San Francisquito Creek Coordinating Committee in order to coordinate plans for regional management of the watershed. Several of the jurisdictions on the San Francisquito Creek Coordinating Committee are currently contemplating the creation of a joint powers agreement that would have the authority and resources to manage the watershed.

### **Downtown Improvements**

Downtown Parking: Work has continued with the Chamber of Commerce Downtown

Parking Subcommittee on various components of a Comprehensive Parking Plan. In 1997-98, staff implemented a parking permit fee increase in the University Avenue Assessment District to cover operating and maintenance costs in the parking facilities. In January 1998, Council approved proceeding with the design of two parking structures in the Downtown. The design will proceed to the 50 percent completion stage, at which time it will be presented to Council for approval. Upon Council approval, the proceeding to form an assessment district will be held. If an assessment district is approved by a majority of Downtown property owners, the design will be completed and the parking structures will be built. Staff continued to evaluate the feasibility of a residential parking permit program in neighborhoods adjacent to downtown.

Downtown Health and Safety: Over the past few years, downtown Palo Alto has experienced increases in traffic violations, panhandling, public intoxication, and aggressive and assaultive behavior. At Council's direction, staff prepared a long-term strategy to address health and safety issues. This strategy included elements of police enforcement (police presence in the Downtown was increased), development of new ordinances, code enforcement, educational efforts, and assistance to chronic substance abusers. In 1997-98 staff evaluated the trial program of utilizing Community Service Officers in the field to assist in the implementation of the Downtown Health and Safety Program. Council approved the addition of three Community Service Officers to take "cold reports" in order to free up police officers' time so that enforcement efforts can be directed to the Downtown. The high visibility and public contacts by police officers has significantly reduced the number of complaints, reports from citizens, and decreased the level of criminal activity in the Downtown.

Downtown Urban Design: In response to growing economic activity in the Downtown and the attraction of numerous visitors, staff developed a Downtown Urban Design Improvements Master Plan. The Plan was designed to implement a variety of landscape and lighting improvements, update and enhance public area facilities, improve signage, replace benches, and institute a limit on the number of news racks. The City is working in partnership with Downtown businesses to implement improvements identified in the Master Plan in a phased program beginning in fiscal year 1997-98. The construction of the first phase of improvements is underway and should be complete in late 1998.

Downtown Maintenance: Over the years, as the Downtown has grown more vital and populated, concerns about the maintenance and cleanliness have increased. The prospect of future Downtown Urban Design Master Plan improvements would add to the challenge of meeting acceptable levels of maintenance. The City has been working with the Chamber of Commerce and several key downtown property owners to define and implement an enhanced program of downtown maintenance. The scope of work being discussed would increase the

frequency and expand the area for many maintenance services, such as street and sidewalk sweeping and pressure washing, refuse pick-up, landscaping, and parking lot cleaning, to include the entire Downtown District, not just University Avenue. In the coming year, the City will pursue the establishment of a maintenance assessment district to fund the improvements.

## **Technology**

Information Technology Strategic Plan: In 1997-98, the development of a long-range information technology strategic plan was initiated. The plan will address issues such as technical infrastructure and architecture, systems development, organizational structure, staffing levels, reporting relationships and training. The plan will be completed in 1998-99.

Year 2000 Compliance: Work on the multi-year plan to ensure the City's software is Year 2000-compliant continued in 1997-98. During the year, the City completed an assessment of all of its major software applications. The City also developed contract language which requires Year 2000 compliance for all new software and hardware purchased. For most of its major applications, the City has received written certification from vendors regarding compliance, and compliance testing is underway. Those applications that are not compliant are being replaced.

Internet: In 1996-97, the City formulated its vision for the Internet through the creation of an Internet Master Plan. The Master Plan's goals for Internet use are: providing access to public information; delivering enhanced customer service; and providing the opportunity for proactive communication between City government and the citizens it serves. In 1997-98, the City hired an Internet Coordinator, who is responsible for implementing the vision and the policies embodied in the Internet Master Plan. The City also contracted with a new Internet Service Provider, redesigned the City's home page, created standard templates for home page development, and addressed Internet security issues.

Computer Replacement Fund: In 1997-98, the City established a Computer Replacement Fund to facilitate the long-term management of its technology infrastructure. This fund will provide for the systematic and regular replacement of personal computers, mainframes, and monitors. Over 400 personal computers and 10 servers were replaced and upgraded last year as a result of the new fund.

## **Planning & Community Environment Department**

Special attention has been focused on the Department of Planning & Community

Environment in 1997-98. In addition to the adoption and publication of the 2010 Comprehensive Plan, the Department was responsible for managing two highly visible projects ( a new Historic Preservation Ordinance and a Residential Neighborhoods analysis) initiated by the Council. In February 1998, an organizational review of the Planning Division was completed. The review evaluated the organization, staffing and workflow in the Division. Implementation of the findings will require changes in the organization of the Division and the addition of five new positions in 1998-99.

Comprehensive Plan: Since October 1992, the citizens, staff, advisory boards, Planning Commission and City Council of Palo Alto have been in the process of preparing a Comprehensive Plan for Palo Alto to replace the 1980-1995 Plan. The Comprehensive Plan is the primary tool for guiding the future development of the City. Its purpose is to direct decision making toward a shared vision of what Palo Alto should be like in the intermediate and long-term future. In July 1998, the City Council adopted the 1998-2010 Comprehensive Plan for the City of Palo Alto. Staff plans to return to the Council in late 1998 with an implementation chapter, which will be incorporated into the Plan by amendment. With the City's next Mission Driven Budget (1999-01 Budget), staff plans to link the 1998-2010 Comprehensive Plan to the City's Capital Improvement Program and operating budget.

Sand Hill Road: On June 30, 1997, the City Council approved the Sand Hill Corridor Improvement Project. This major development project includes building a 628-unit apartment complex to provide housing for Stanford employees, constructing 388 independent living units and a Health Care Center for senior citizens, expanding Stanford Shopping Center by 80,000 square feet, and expanding, extending and improving several roadways. The voters ratified the Council's action on November 4, 1997. This project represents the largest single development activity in the City since the 1950's. Construction of the project is underway and significant City staff resources are devoted to its implementation. In 1997-98, a new Deputy City Manager position was created to manage the City reviews of the various phases of the project.

Palo Alto Medical Foundation Relocation: The Palo Alto Medical Foundation (PAMF) provides family and specialty medical care to numerous Palo Altans and surrounding communities. In January 1996, PAMF received City Council approval to relocate its aging facilities to a new campus. The campus, which will have approximately 355,000 square feet of buildings, will be located on a 9.2-acre site southwest of Palo Alto's downtown, along El Camino Real, known as "Urban Lane." Construction of the project is underway.

### **Permit Streamlining**

In response to community and business concerns, the City continued the multi-departmental

efforts begun in 1995-96 to streamline the development approval process. This effort includes the Fire, Public Works, Utilities and Planning Departments, and is being coordinated by the City Manager's Office. In a joint work effort with selected customers, the City identified needed improvements to enhance its development approval process. Improvements implemented include: the addition of new positions to perform plan checking duties; increased contract dollars for plan review consultants; and a customer service training program for all involved in the permitting process. The implementation of an automated permit tracking system, the use of the Internet for an online permit status system, Municipal Code improvements, and the pursuit of a "one-stop" development center are underway.

### **Energy Deregulation**

The City continues to proactively respond to the challenges posed by deregulation of the electric and natural gas industries. In 1997-98, staff dedicated a large effort to the implementation of the policy to provide customers open access to the supplier of their choice and to selling energy and energy-related services outside of the City's service territory. Beginning July 1, 1997, electric rates were "unbundled" or restructured to better identify the costs of delivering power to the City's different customer types. To address rate competition, the City has chosen to cover stranded electric generation costs, or debt service on its share of the Calaveras Project, by continuing to build the Calaveras Reserve balance. At the end of 1997-98, this Reserve reached \$55.6 million. This reserve will allow the City to moderate potential rate increases in the future. The implementation of an accelerated plan to replace and maintain aging energy distribution infrastructure is well underway. Further, a new billing system to accommodate new products and services, innovative rate structures, and other improvements in customer service and staff efficiency began during the year. As it begins a new competitive era, the electric and gas utilities have positioned themselves to provide customers with a high level of service, low rates, reliability, quality power and service, and energy efficiency.

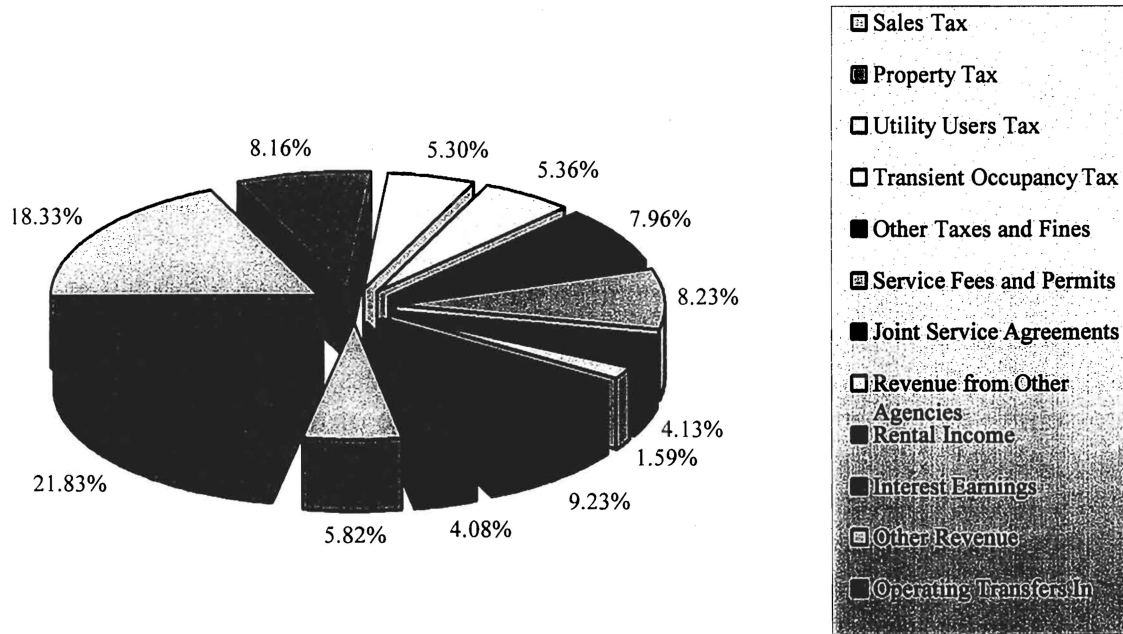
## **FINANCIAL HIGHLIGHTS**

### **General Government Functions**

The fiscal operations of the City for general government functions are reflected in the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds. Revenues and other financing sources for these funds totaled \$109.2 million, an increase of \$10.8 million from 1996-97 revenues. Expenditures and other uses totaled \$96.7, up \$7.1 million from the prior year. Combined fund balances were \$78.1 million as of June 30, 1998. Unreserved and available fund balances were \$43.7, an increase of \$11.1 million from the prior year.



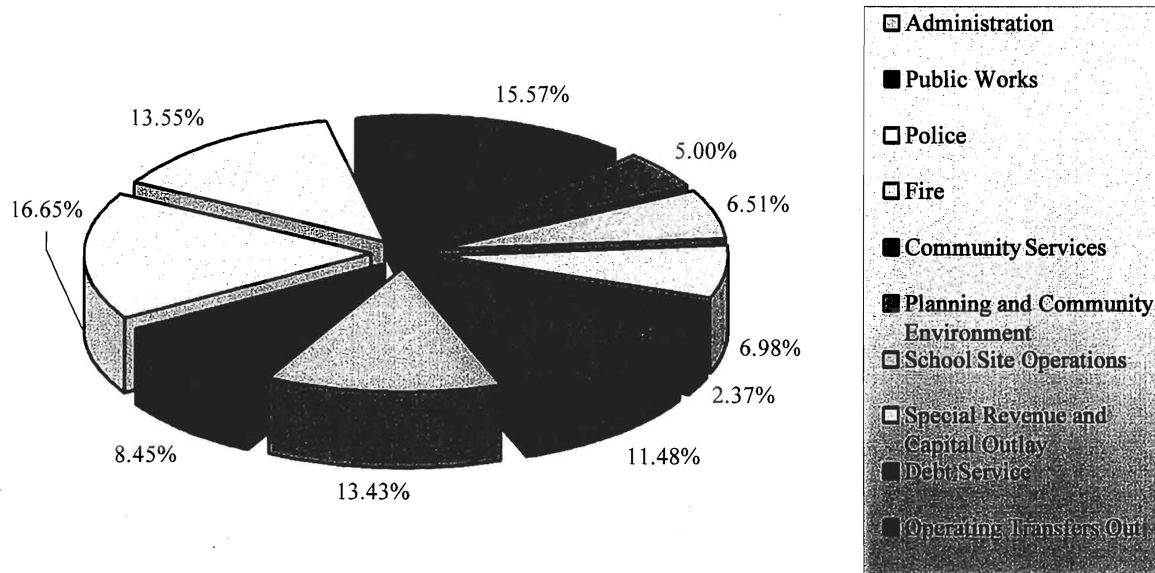
**CITY OF PALO ALTO**  
**GENERAL GOVERNMENTAL REVENUES AND OTHER**  
**FINANCING SOURCES**  
*For the year ended June 30, 1998*



<b>Revenues (\$000)</b>	<b>1998 Actual</b>	<b>% of Total</b>	<b>Increase (Decrease) from 1997</b>
Sales Tax	\$ 20,011	18.33	\$ 1,734
Property Tax	8,903	8.16	1,168
Utility Users Tax	5,780	5.29	271
Transient Occupancy Tax	5,846	5.35	739
Other Taxes and Fines	8,685	7.96	1,428
Service Fees and Permits	8,984	8.23	(103)
Joint Service Agreements	4,507	4.13	314
Revenue from Other Agencies	1,732	1.59	(507)
Rental Income	10,074	9.23	407
Interest Earnings	4,451	4.08	1,152
Other Revenue	6,354	5.82	1,974
<b>Total Direct Revenues</b>	<b>85,327</b>	<b>78.17</b>	<b>8,577</b>
<b>Operating Transfers In</b>	<b>23,825</b>	<b>21.83</b>	<b>2,189</b>
<b>Total Revenues</b>	<b>\$ 109,152</b>	<b>100.00</b>	<b>\$ 10,766</b>

**CITY OF PALO ALTO**  
**GENERAL GOVERNMENTAL EXPENDITURES**  
**AND OTHER USES**

*For the year ended June 30, 1998*

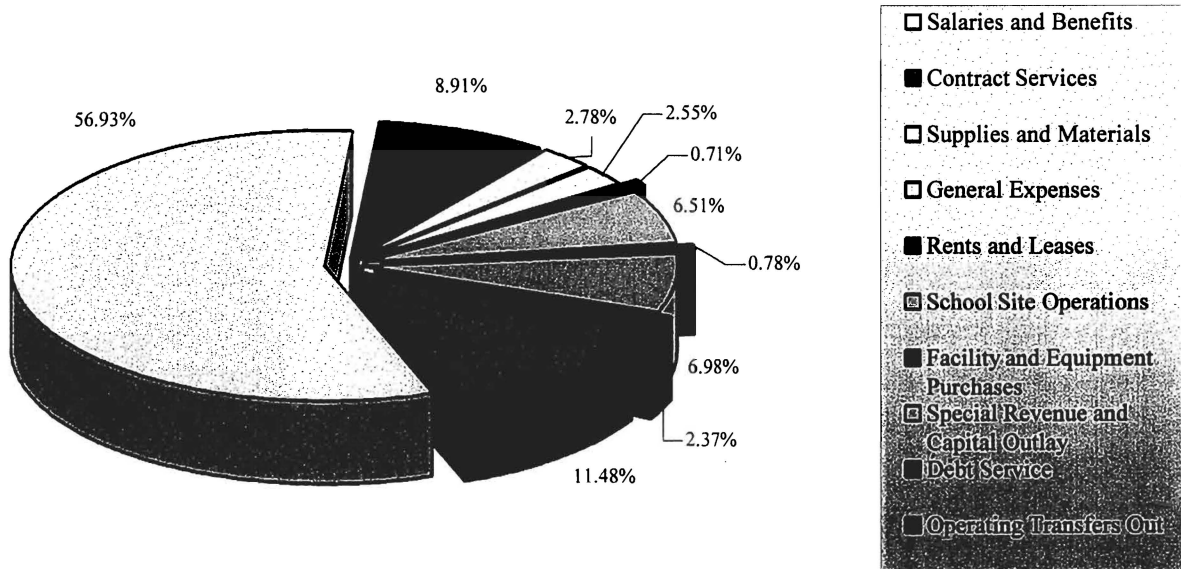


<u>Expenditures</u>	<u>1998 Actual</u>	<u>% of Total</u>	<u>Increase (Decrease) from 1997</u>
Administration (A)	\$ 12,987	13.44	\$ 1,298
Public Works	8,172	8.45	833
Police	16,093	16.65	1,289
Fire	13,100	13.55	808
Community Services	15,050	15.57	1,078
Planning and Community Environment	4,832	5.00	512
School Site Operations	6,298	6.51	212
Special Revenue and Capital Outlay	6,749	6.98	(832)
Debt Service	2,293	2.37	(26)
<b>Total Direct Expenditures</b>	<b>85,574</b>	<b>88.52</b>	<b>5,172</b>
<b>Operating Transfers Out</b>	<b>11,097</b>	<b>11.48</b>	<b>1,892</b>
<b>Total Expenditures and Operating Transfers Out</b>	<b>\$ 96,671</b>	<b>100.00</b>	<b>\$ 7,064</b>

(A) *Comprised of the following departments:*

City Council	151
City Manager	988
City Attorney	1,380
City Clerk	813
City Auditor	418
Administrative Services	7,400
Human Services	1,837

**CITY OF PALO ALTO**  
**GENERAL GOVERNMENTAL EXPENDITURES**  
**AND OTHER USES BY TYPE**  
*For the year ended June 30, 1998*



<u>Expenditures (\$000)</u>	<u>1998 Actual</u>	<u>% of Total</u>	<u>Increase (Decrease) from 1997</u>
Salaries and Benefits	\$ 55,035	56.93	\$ 3,698
Contract Services	8,612	8.91	1,915
Supplies and Materials	2,682	2.78	164
General Expenses	2,468	2.55	220
Rents and Leases	687	0.71	(18)
School Site Operations	6,298	6.51	212
Facility and Equipment Purchases	750	0.78	(161)
Special Revenue and Capital Outlay	6,749	6.98	(832)
Debt Service	2,293	2.37	(26)
<b>Total Direct Expenditures</b>	<b>85,574</b>	<b>88.52</b>	<b>5,172</b>
Operating Transfers Out	11,097	11.48	1,892
<b>Total Expenditures</b>	<b>\$ 96,671</b>	<b>100.00</b>	<b>\$ 7,064</b>

## **General Fund**

In 1997-98, the City's General Fund ended the year with an operating surplus of \$6.5 million. A variety of factors contributed to the positive results. On the revenue side, sales tax, property tax, transient occupancy tax, documentary tax, and interest income were strong. On the expenditure side, the primary sources of the surplus were departmental savings in salaries and benefits, due to vacancies; and savings in contract services.

### **Revenues and Other Financing Sources:**

Overall, total General Fund revenues and other financing sources were \$7.8 million, or 9.4 percent higher than the previous fiscal year, and were 4.6 percent, or \$4.0 million higher than the 1997-98 adjusted budget. Sales tax revenues were 9.5 percent higher than 1996-97 receipts and 1.6 percent above the adjusted budget. The strong economic segments in sales taxes were auto sales, retail sales, and restaurants. The City experienced the highest year-to-year increase in property tax receipts in the last five years, with property taxes exceeding prior year revenues by 15.1 percent and 5.9 percent above the adjusted budget. Transient occupancy tax (TOT) revenues continued to surge in 1997-98, exceeding 1996-97 revenues by 14.5 percent, or \$.7 million over the previous year. The substantial increase in TOT revenues results from higher occupancy and hotel rates, and room additions. Utility user tax (UUT) revenues have rebounded, rising \$.3 million, or 4.9 percent over 1996-97, and 5.4 percent over the adjusted budget. Telephone UUT revenues, driven by Internet and new phone line activity, contributed to the positive results. Other taxes and fines revenues exceeded the prior year by 26.3 percent, or \$1.4 million, and the adjusted budget by 17 percent, driven by dramatic increases in documentary transfer tax revenues.

### **Expenditures and Other Uses:**

General Fund expenditures and other uses were \$7.4 million, or 9.6 percent higher than the previous fiscal year and \$4.9 million, or 5.5 percent lower than the adjusted budget for 1997-98. Lower-than-anticipated expenditures were a consequence of staff vacancies, lower-than-budgeted water charges due to heavy winter rains, and savings in contract services.

### **Special Revenue Funds**

The Special Revenue Funds include the Street Improvement Fund, Federal Revenue Fund, Housing-in-Lieu Fund, Special Districts Fund, Transportation Mitigation Fund, Local Law Enforcement Fund and Downtown Planned Community Fund. The City spent approximately \$1.3 million of Street Improvement Funds (gas tax) to refurbish its streets. Housing-in-lieu money has been used to support construction of a single resident occupancy (SRO) on Alma

Street, which opened in February 1998 and is now fully occupied. Housing-in-lieu money has also supported the construction of a 24-unit apartment complex on Page Mill Court for adults with developmental disabilities. Construction of this project began in 1997-98 and was completed in August 1998.

### **Capital Projects Fund**

Capital projects expenditures in 1997-98 totaled \$5.8 million and focused on replacing and upgrading the City's aging infrastructure and on technology improvements. The infrastructure capital work included: upgrading irrigation and backflow systems; upgrades to antiquated traffic and pedestrian safety devices; lighting improvements; and facility roof replacements. Ongoing street and sidewalk renovations also represented a significant share of capital expenses at \$1.9 million. The technology expenditures were focused on upgrading the network at the Civic Center, acquiring network management tools, connecting the Downtown library to the City's network, installing Microsoft Windows NT to improve the performance and reliability of the City's computers, acquiring a new cash receipting system to replace an aging system, and acquiring new Geographic Information System (GIS) applications to enhance management capabilities and to expeditiously provide information to the public at customer service counters.

### **Proprietary Funds**

The City of Palo Alto's Proprietary Fund type consists of seven Enterprise Funds (water, electric, gas, wastewater collection, wastewater treatment, refuse, storm drainage) and four Internal Service Funds (vehicle replacement and maintenance, computer equipment replacement, printing and mailing services, and general benefits and insurance). The Enterprise Funds have been established to account for the financing of self-supporting activities which render services to the general public on a user charge basis. The Internal Service Funds are similar to Enterprise Funds in the nature of their operations, except that they provide services internally to other City departments rather than to the public. The Internal Service Funds are operated so that incoming revenues offset current expenses.

### **Enterprise Funds**

Water Fund operating revenues were \$1.7 million, or 12.1 percent below the prior year, resulting from lower water consumption due to heavy winter rains. For the same reason, purchase costs were \$.5 million below the prior year. The Water Fund's Rate Stabilization Reserve (RSR) was \$7.5 million at year-end, which is \$.3 million below the maximum guideline level.

Electric Fund operating revenues were \$8.5 million, or 11.6 percent above the prior year, due to a 4 percent rate increase, increased revenues related to the sale of wholesale Calaveras power to other agencies and leases of the California/Oregon transmission line to other jurisdictions. Commodity purchase costs were \$4.4 million higher than 1996-97 levels. Other operating expenses were \$7.6 million, or 11.8 percent higher than the prior fiscal year. The Electric Fund reserve levels remained healthy. In 1997-98, the Electric RSR was split into supply and distribution reserves to allow for appropriate tracking of the supply and distribution components of the utility in a deregulated environment. The Distribution RSR totaled \$8.1 million and the Supply RSR totaled \$14.6 million at year-end, both at the maximum guideline levels established by Council. A transfer of \$13.9 million was made to the Calaveras Reserve, which reached \$55.6 million at year-end, or 60 percent of its target level.

Gas Fund operating revenues were \$1.6 million above prior year levels, resulting from increased gas consumption. Commodity purchases and other operating expenses were \$.5 million higher than prior year levels. In 1997-98, the Gas RSR was split into supply and distribution reserves to allow for appropriate tracking of the supply and distribution components of the utility in a deregulated environment. The Gas Fund's Distribution RSR balance at the end of 1997-98 was \$7.9 million and the Supply RSR was \$8.5 million, significantly exceeding the maximum guideline levels. An approved 7 percent reduction in gas rates in 1998-99 will help to bring these reserve levels closer to the established guidelines.

Wastewater Collection Fund operating revenues were slightly (\$.03 million) higher than the previous year. Operating expenses were \$.5 million higher than the prior year. The Wastewater Collection's RSR balance of \$7.4 million is \$2.4 million above the maximum guideline level approved by Council. Recommendations to address this excess reserve balance will be made as part of the 1999-2001 Budget.

Wastewater Treatment Fund operating revenues, which are based on cost reimbursements from the Regional Water Quality Control Plant (RWQCP) Partners, were \$.6 million, or 5.8 percent higher than the prior year. Operating expenses were \$.5 million higher than the prior year. The Wastewater Treatment's RSR balance of \$3.4 million is within the Council-approved guidelines.

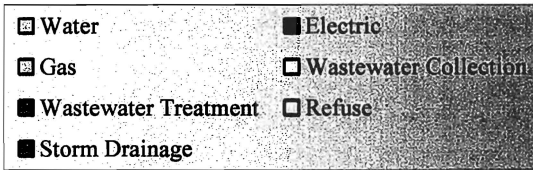
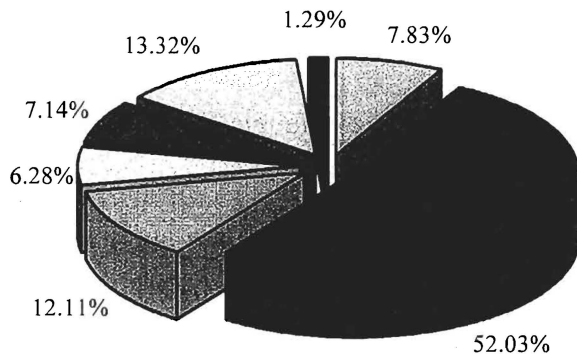
Refuse Fund operating revenues were \$.5 million higher than the prior year, and operating expenses were \$1.4 million higher than 1996-97. The RSR totals \$6 million at the end of 1997-98, exceeding the maximum guideline level by \$2 million. Recommendations to address this excess reserve balance will be made as part of the 1999-2001 Budget.

# CITY OF PALO ALTO

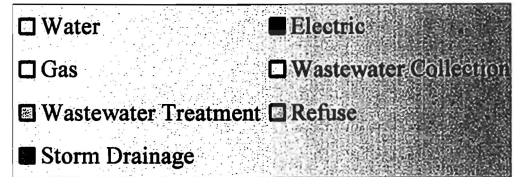
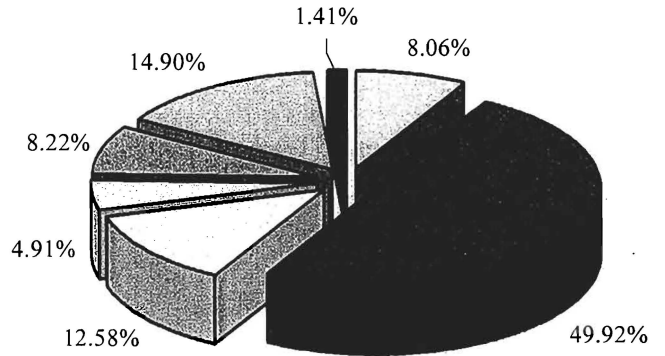
## ENTERPRISE FUNDS

*For the year ended June 30, 1998*

**REVENUES BY FUND**



**EXPENSES BY FUND**



**Enterprise Funds (\$000)**

Water  
 Electric  
 Gas  
 Wastewater Collection  
 Wastewater Treatment  
 Refuse  
 Storm Drainage

**Revenues**

\$ 13,029  
 86,551  
 20,142  
 10,450  
 11,870  
 22,152  
 2,153

**Expenses**

\$ 11,139  
 68,965  
 17,383  
 6,777  
 11,361  
 20,577  
 1,949

**Total**

**\$ 166,347**

**\$ 138,151**

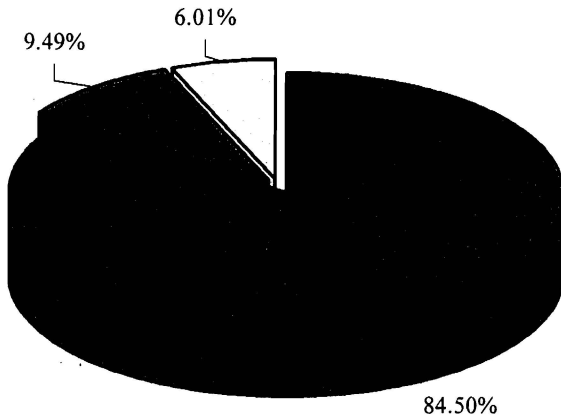


# CITY OF PALO ALTO

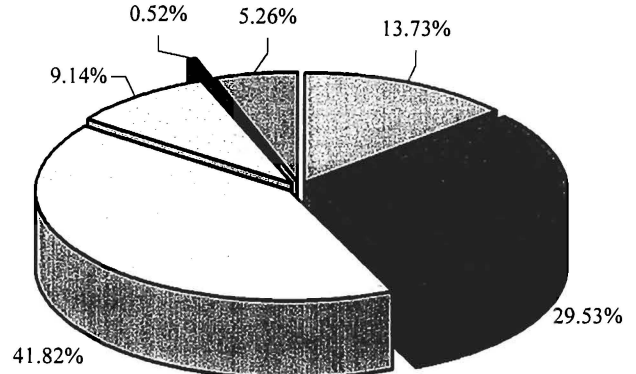
## ENTERPRISE FUNDS

For the year ended June 30, 1998

### REVENUES BY CATEGORY



### EXPENSES BY CATEGORY



<u>Revenues (\$000)</u>	<u>1998</u>	<u>% of</u>	<u>Increase</u>
	<u>Actual</u>	<u>Total</u>	<u>(Decrease)</u>
			<u>from 1997</u>
Utility Sales	\$ 140,554	84.50	\$ 15,805
Other Revenue	15,791	9.49	(3,712)
Investment Income	10,002	6.01	2,339
<b>Total Revenues</b>	<b>\$ 166,347</b>	<b>100.00</b>	<b>\$ 14,432</b>

<u>Expenses (\$000)</u>			
Salaries and Benefits	\$ 18,964	13.73	\$ 1,851
Operating Expenses	40,796	29.53	4,271
Purchases	57,778	41.82	7,230
Transfers to General Fund	12,623	9.14	317
Interest Expense	715	0.52	(39)
Rent	7,275	5.26	288
<b>Total Expenses</b>	<b>\$ 138,151</b>	<b>100.00</b>	<b>\$ 13,918</b>

Storm Drainage Fund operating revenues were about the same as 1996-97 revenues. Fund expenses were \$.3 million above prior year expenses. At year-end, the Fund had an RSR balance of \$.5 million. No formal reserve policies exist for the Storm Drainage Fund.

### **Cash Management**

In 1997-98, the City adopted Government Accounting Standards Statement 31, which requires that the City's investments be carried at fair market value instead of cost (carrying value). The City's investment portfolio had a fair market value of \$257.8 million at year-end, which was \$1.939 million higher than the carrying value. The portfolio grew by more than \$30 million during 1997-98. Approximately two-thirds of this growth, about \$20 million, was in the Enterprise Funds, primarily reflecting the augmentation of the Calaveras Reserve. Interest income totaled \$14.8 million in 1997-98, an increase of \$1.8 million from 1996-97.

The City invests funds prudently and ensures that there is sufficient liquidity to meet unexpected needs. As of June 30, 1998, 54.3 percent of portfolio securities would mature in less than two years, and \$29.1 million of the portfolio was immediately available in overnight funds. The available liquid funds represent over a month's operating and capital expenditures. The City's ongoing cash needs are adequately met through the receipt of daily cash, due in part to a consistent flow of utility revenues. Although the City has a "buy and hold" philosophy, which means holding securities until they mature, the City's investments are very liquid on the secondary market.

The City's portfolio yield was 6.58 percent, slightly above the 6.13 percent earned in 1996-97. The average life of securities in the portfolio declined from 2.23 years in 1996-97 to 1.84 years in 1997-98. Toward the end of 1997-98, investment yields decreased dramatically. A flattened yield curve (where yields on two-year investments were essentially the same as yields on five-year investments), has prompted investments in overnight funds and short-term securities. These short-term investments have reduced the average life of the portfolio. The Asian crisis is expected to exert continued pressure on interest rates and portfolio earnings in the future.

The City of Palo Alto has adopted an Investment Policy, as prescribed by State law. During 1997-98, staff complied with all aspects of the City's Investment Policy.

### **Debt Administration**

Debt recorded in the General Long-Term Debt Group at June 30, 1998 totaled \$12.7 million, as compared to \$14.1 million at the close of the prior fiscal year. The City's debt obligations

are comprised of:

<u>Type</u>	<u>Principal Outstanding</u>
Special Assessment Debt with City Commitment	\$5,685
Certificates of Participation (COPs)	\$5,215
Capital Lease	\$1,186
Lease Revenue Bonds	\$625

In July 1998, the City was informed that it received the highest general city credit rating possible (AAA) from both Standard and Poor's and Moody's Investor Services. Palo Alto is the first city in California to obtain an AAA rating from Standard and Poor's since the passage of Proposition 13 in 1978. Moody's has issued only one other AAA general city credit rating recently.

### **Risk Management**

The City is obligated to maintain adequate reserves for its self-insured health, worker's compensation and general liability programs. Calculation of necessary reserve levels is made on an annual basis and recorded at the end of the fiscal year. Reserves include an estimate of incurred but not reported (IBNR) losses. Operating departments are charged for their share of operating expenses for the self-insured programs, which includes the maintenance of adequate reserves. The City's self-insurance reserves totaled \$7.7 million in 1997-98, a reduction of \$.3 million from prior year levels. This amount includes reserves for dental claims (\$.2 million), worker's compensation and general liability claims (\$7.2 million), and municipal liability claims (\$.3 million).

In fiscal year 1997-98, an actuarial study was conducted. The City's actuarial consultant, Capital Actuarial Consultants, determined that the 1997-98 worker's compensation and general liability self-insurance reserves should be \$7.2 million.

Municipal liability claims are handled through the Authority of California Cities Excess Liabilities (ACCEL) Program. As a member of ACCEL, the City shares pooled risk for civil liability exposures with eleven other cities. Participation in ACCEL provides the City with an alternative to purchasing liability insurance from commercial carriers. In a prior year, one of the ACCEL member cities suffered losses due to extensive flooding and landslide damage. As a member of the self-insurance pool, the City is expected to share in that loss.

Palo Alto's estimated share of the damage is estimated at \$0.3 million, and payment is now anticipated in fiscal year 1998-99.

For the sixth year in its twelve-year history, ACCEL returned retroactive adjustments to its members; the adjustments are calculated beginning five years after the end of each program year. The City received a retroactive adjustment of \$0.5 million during 1997-98, relating to the liability year 1992-93. The program reserves are maintained in excess of \$27 million.

### AWARDS

For the fourth consecutive year, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1997.

In addition, the City received a Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for its CAFR for the fiscal year ended June 30, 1997. The City received this award for the fourth straight year.

These awards are given to agencies whose CAFRs conform to high standards of public reporting and generally accepted accounting principles (GAAP), and attainment represents a significant accomplishment by the agencies and its management. Both awards are valid for a period of one year. Staff believes that the current CAFR continues to meet both programs' requirements, and submissions to GFOA and CSMFO will again be made to determine eligibility for certificates.

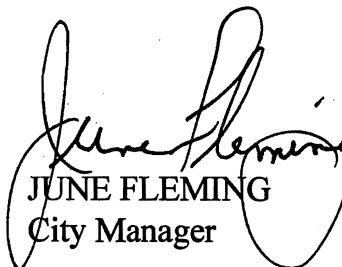
### ACKNOWLEDGMENT

The Comprehensive Annual Financial Report reflects the hard work dedication, talent and commitment of the staff members of the Administrative Services Department. This document could not have been accomplished without their efforts. Each individual deserves sincere appreciation for their contributions. Special acknowledgment should be given to the City Council Finance Committee for its support and interest in directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,



CARL YEATS  
Director, Administrative Services



JUNE FLEMING  
City Manager

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palo Alto,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Douglas R. Ellaworth*  
President

*Jeffrey L. Essler*  
Executive Director

# California Society of Municipal Finance Officers

Certificate of Award

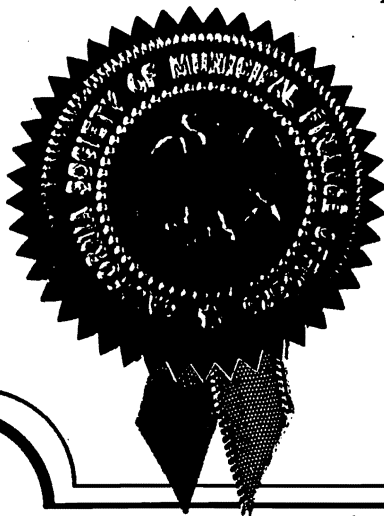
*Outstanding Financial Reporting 1996-97*

Presented to the

*City of Palo Alto*

*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*February 23, 1998*



*Deed H...*  
Chair, Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Palo Alto, California

We have audited the general purpose financial statements of the City of Palo Alto as of and for the year ended June 30, 1998 as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 1997 were audited by other auditors whose opinion dated October 30, 1997 was unqualified.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly in all material respects the financial position of the City of Palo Alto at June 30, 1998 and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated October 2, 1998 on our consideration of the City of Palo Alto's internal control structure and on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and account group statements and schedules section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of Palo Alto. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements, and in our opinion is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.

*Maze + Associates*

October 2, 1998

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**CITY OF PALO ALTO**  
**COMBINED STATEMENTS OVERVIEW**

These statements provide an overview of the combined financial position and the operating results of all fund types and account groups. Individual funds utilized by the City are grouped in these statements as follows:

**GOVERNMENTAL FUND TYPE OPERATION**

These funds (general, special revenue, debt service and capital projects) are those through which governmental functions are typically funded with the emphasis on sources and uses of resources.

**PROPRIETARY FUND TYPE OPERATION**

These funds (enterprise and internal service) are used to account for activities similar to private industry with the emphasis on net income determination.

**FIDUCIARY FUND TYPE**

These funds account for assets held by the City in a trustee capacity or as an agent for others.

**ACCOUNT GROUPS**

Account groups are used to establish accounting control for the City's general fixed assets and unmatured principal of its general long-term obligations. Because these assets and liabilities are long-term they are neither spendable resources nor do they require current appropriation. They are accounted for separate from governmental fund types.

CITY OF PALO ALTO  
 COMBINED BALANCE SHEETS  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 1998  
 WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1997  
 (In thousands of dollars)

ASSETS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Cash and investments (Note 3):						
Available for operations	\$38,781	\$9,487	\$1,107	\$15,162	\$155,417	\$31,770
Restricted			1,057		2,755	
Receivables, net:						
Accounts	6,072	126			14,351	26
Special assessments			5,195			
Interest	879	126	28		2,194	378
Notes (Note 5)	689	6,397				
Interfund receivable (Note 4)	514					
Inventory of materials and supplies	1,953					217
Prepaid items					42	180
Deferred compensation plan investments (Note 14)						
Property, plant and equipment, net (Note 6)					226,667	7,674
Amount available in debt service funds						
Amount to be provided for retirement of general long-term debt						
<b>Total Assets</b>	<b>\$48,888</b>	<b>\$16,136</b>	<b>\$7,387</b>	<b>\$15,162</b>	<b>\$401,426</b>	<b>\$40,245</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$1,525	\$137		\$527	\$7,513	\$343
Accrued salaries and benefits	982				420	1,421
Deferred revenue	477	129	\$5,195			
Deferred compensation payable (Note 14)						
Accrued compensated absences (Note 1F)						9,677
Accrued self-insurance (Note 15)						7,650
Landfill closure and postclosure care (Note 9)					7,238	
Interfund payable (Note 4)		514				
Due to bondholders						
Long term obligations (Note 7):						
Lease revenue bonds						
Certificates of participation						
Capital lease obligations						
Utility revenue bonds, net of unamortized discount					17,915	
Special assessment debt with city commitment (Note 8)						
<b>Total Liabilities</b>	<b>2,984</b>	<b>780</b>	<b>5,195</b>	<b>527</b>	<b>33,086</b>	<b>19,091</b>
<b>FUND EQUITY AND OTHER CREDITS</b>						
Contributed capital (Note 1G)					58,593	6,140
Investment in general fixed assets						
Retained earnings (Note 10)					309,747	15,014
Fund balances (Note 10):						
Reserved	7,678	12,424	2,191	20,626		
Unreserved:						
Designated	38,226	5,425	1			
Undesignated		(2,493)		(5,991)		
<b>Total Fund Equity</b>	<b>45,904</b>	<b>15,356</b>	<b>2,192</b>	<b>14,635</b>	<b>309,747</b>	<b>15,014</b>
<b>Total Equity and Other Credits</b>	<b>45,904</b>	<b>15,356</b>	<b>2,192</b>	<b>14,635</b>	<b>368,340</b>	<b>21,154</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$48,888</b>	<b>\$16,136</b>	<b>\$7,387</b>	<b>\$15,162</b>	<b>\$401,426</b>	<b>\$40,245</b>

See accompanying notes to financial statements

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (Memorandum Only)	
	Trust and Agency	General Fixed Assets	General Long- Term Obligations	1998
\$8,451			\$260,175	\$225,044
1			3,813	5,277
			20,575	19,047
			5,195	5,685
114			3,719	3,418
			7,086	7,127
			514	203
			2,170	2,308
			222	187
58,612			58,612	48,259
	\$105,695		340,036	328,291
		\$2,192	2,192	2,350
		10,519	10,519	11,766
<u>\$67,178</u>	<u>\$105,695</u>	<u>\$12,711</u>	<u>\$714,828</u>	<u>\$658,962</u>
\$1			\$10,046	\$7,353
			2,823	2,676
			5,801	5,685
58,612			58,612	48,259
			9,677	8,876
			7,650	7,920
			7,238	6,932
			514	203
400			400	437
		\$625	625	725
		5,215	5,215	5,675
		1,186	1,186	1,581
			17,915	18,724
		5,685	5,685	6,135
<u>59,013</u>		<u>12,711</u>	<u>133,387</u>	<u>121,181</u>
			64,733	64,590
	\$105,695		105,695	104,167
			324,761	295,774
			42,919	33,031
59			43,711	33,321
8,106			(378)	6,898
<u>8,165</u>			<u>411,013</u>	<u>369,024</u>
8,165	105,695		581,441	537,781
<u>\$67,178</u>	<u>\$105,695</u>	<u>\$12,711</u>	<u>\$714,828</u>	<u>\$658,962</u>

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CITY OF PALO ALTO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
 WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
 (In thousands of dollars)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTALS (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	1998	1997
<b>REVENUES</b>							
Property taxes	\$8,903					\$8,903	\$7,735
Special assessments			\$857			857	858
Sales taxes	20,011					20,011	18,277
Utility users' tax	5,780					5,780	5,509
Transient occupancy tax	5,846					5,846	5,107
Other taxes and fines	6,694	\$1,134				7,828	6,399
Fire protection and emergency communication services	4,507					4,507	4,193
From other agencies	667	757	250	\$58		1,732	2,239
Service fees and permits	8,984					8,984	9,087
Return on investment	3,759	599	93		\$530	4,981	3,736
Rental income	10,074					10,074	9,667
Other	2,848	3,505		1	33	6,387	4,393
<b>Total Revenues</b>	<b>78,073</b>	<b>5,995</b>	<b>1,200</b>	<b>59</b>	<b>563</b>	<b>85,890</b>	<b>77,200</b>
<b>EXPENDITURES</b>							
Current operations:							
City Council	151					151	116
City Manager	988					988	918
City Attorney	1,380					1,380	1,162
City Clerk	813					813	600
City Auditor	418					418	426
Administrative Services	7,400					7,400	6,921
Human Resources	1,837					1,837	1,546
Public Works	8,172					8,172	7,339
Planning and Community Environment	4,832					4,832	4,320
Public Safety - Police	16,093				42	16,135	14,835
Public Safety - Fire	13,100					13,100	12,292
Community Services	15,050					15,050	13,972
School site operations	6,298					6,298	6,086
Capital outlay		923		5,826		6,749	7,581
Debt service:							
Principal retirement			1,405			1,405	1,355
Interest and fiscal charges			888			888	964
<b>Total Expenditures</b>	<b>76,532</b>	<b>923</b>	<b>2,293</b>	<b>5,826</b>	<b>42</b>	<b>85,616</b>	<b>80,433</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,541</b>	<b>5,072</b>	<b>(1,093)</b>	<b>(5,767)</b>	<b>521</b>	<b>274</b>	<b>(3,233)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating transfers in (Note 4)	12,755	3	935	10,132		23,825	21,636
Operating transfers (out) (Note 4)	(7,822)	(3,275)				(11,097)	(9,205)
<b>Total Other Financing Sources (Uses)</b>	<b>4,933</b>	<b>(3,272)</b>	<b>935</b>	<b>10,132</b>		<b>12,728</b>	<b>12,431</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>6,474</b>	<b>1,800</b>	<b>(158)</b>	<b>4,365</b>	<b>521</b>	<b>13,002</b>	<b>9,198</b>
Fund balances at beginning of year, as restated (Note 8)	38,575	13,556	2,350	11,125	7,644	73,250	64,052
Residual equity transfers in	855					855	1,108
Residual equity transfers (out)				(855)		(855)	(1,108)
<b>Fund balances at end of year</b>	<b>\$45,904</b>	<b>\$15,356</b>	<b>\$2,192</b>	<b>\$14,635</b>	<b>\$8,165</b>	<b>\$86,252</b>	<b>\$73,250</b>

See accompanying notes to financial statements

CITY OF PALO ALTO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
 (In thousands of dollars)

	GENERAL			SPECIAL REVENUE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$8,405	\$8,903	\$498			
Special assessments						
Sales taxes	19,700	20,011	311			
Utility users' tax	5,485	5,780	295			
Transient occupancy tax	5,700	5,846	146			
Other taxes and fines	5,718	6,694	976	\$1,125	\$1,134	\$9
Fire protection and emergency communication services	4,534	4,507	(27)			
From other agencies	171	667	496	971	757	(214)
Service fees and permits	8,826	8,984	158			
Return on investment	3,100	3,759	659	455	599	144
Rental income	9,838	10,074	236			
Other	2,527	2,848	321	639	3,505	2,866
<b>Total Revenues</b>	<u>74,004</u>	<u>78,073</u>	<u>4,069</u>	<u>3,190</u>	<u>5,995</u>	<u>2,805</u>
<b>EXPENDITURES</b>						
Current operations:						
City Council	169	151	18			
City Manager	1,283	988	295			
City Attorney	1,725	1,380	345			
City Clerk	855	813	42			
City Auditor	509	418	91			
Administrative Services	8,290	7,400	890			
Human Resources	1,927	1,837	90			
Public Works	9,202	8,172	1,030			
Planning and Community Environment	5,499	4,832	667			
Public Safety - Police	16,437	16,093	344			
Public Safety - Fire	13,372	13,100	272			
Community Services	15,797	15,050	747			
School site operations	6,365	6,298	67			
Capital outlay				2,356	923	1,433
Debt Service						
Principal retirement						
Interest and fiscal charges						
<b>Total Expenditures</b>	<u>81,430</u>	<u>76,532</u>	<u>4,898</u>	<u>2,356</u>	<u>923</u>	<u>1,433</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(7,426)</u>	<u>1,541</u>	<u>8,967</u>	<u>834</u>	<u>5,072</u>	<u>4,238</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	12,820	12,755	(65)	3	3	
Operating transfers (out)	(7,799)	(7,822)	(23)	(3,614)	(3,275)	339
<b>Total Other Financing Sources (Uses)</b>	<u>5,021</u>	<u>4,933</u>	<u>(88)</u>	<u>(3,611)</u>	<u>(3,272)</u>	<u>339</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(\$2,405)</u>	<u>6,474</u>	<u>\$8,879</u>	<u>(\$2,777)</u>	<u>1,800</u>	<u>\$4,577</u>
Fund balances at beginning of year, as restated		38,575			13,556	
Residual equity transfer in		855				
Residual equity transfer (out)						
<b>Fund balances at end of year</b>		<u>\$45,904</u>			<u>\$15,356</u>	

See accompanying notes to financial statements

DEBT SERVICE

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$849	\$857	\$8
246	250	4
59	93	34
<u>1,154</u>	<u>1,200</u>	<u>46</u>

1,405	1,405	
921	888	33
<u>2,326</u>	<u>2,293</u>	<u>33</u>
<u>(1,172)</u>	<u>(1,093)</u>	<u>79</u>
912	935	23
<u>912</u>	<u>935</u>	<u>23</u>
<u>(\$260)</u>	(158)	<u>\$102</u>
	2,350	
<u>\$2,192</u>		

CITY OF PALO ALTO  
 COMBINED STATEMENTS OF REVENUES, EXPENSES  
 AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
 WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
 (In thousands of dollars)

	Enterprise	Internal Service	TOTALS (Memorandum Only)	
			1998	1997
<b>OPERATING REVENUES</b>				
Sales of utilities:				
Customers	\$121,777		\$121,777	\$117,677
City departments	7,332		7,332	7,072
Wholesale	11,445		11,445	2,505
Wastewater treatment	6,936		6,936	6,735
Service connection charges and miscellaneous	770		770	916
Charges for services		\$32,721	32,721	29,615
Other revenues	8,085		8,085	11,852
<b>Total Operating Revenues</b>	<b>156,345</b>	<b>32,721</b>	<b>189,066</b>	<b>176,372</b>
<b>OPERATING EXPENSES</b>				
Purchase of utilities	57,778		57,778	53,053
Administration and general	7,953	2,521	10,474	9,282
Engineering (operating)	2,639		2,639	2,185
Resource management	3,618		3,618	3,099
Operations and maintenance	25,230	1,726	26,956	25,137
Rent	7,275		7,275	6,987
Depreciation and amortization	8,746	1,701	10,447	9,832
Claim payments and change in estimated self-insured liability		3,030	3,030	2,583
Compensated absences and other benefits		25,349	25,349	23,884
<b>Total Operating Expenses</b>	<b>113,239</b>	<b>34,327</b>	<b>147,566</b>	<b>136,042</b>
<b>Operating Income (Loss)</b>	<b>43,106</b>	<b>(1,606)</b>	<b>41,500</b>	<b>40,330</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Return on investment	10,002	1,783	11,785	9,262
Interest (expense)	(715)		(715)	(754)
Joint venture debt service	(11,433)		(11,433)	(9,034)
Gain (loss) on disposal of fixed assets	(141)	109	(32)	(445)
Other non-operating revenues		610	610	794
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(2,287)</b>	<b>2,502</b>	<b>215</b>	<b>(177)</b>
<b>Income Before Operating Transfers</b>	<b>40,819</b>	<b>896</b>	<b>41,715</b>	<b>40,153</b>
Operating transfers in (Note 4)	619		619	213
Operating transfers (out) (Note 4)	(13,242)	(105)	(13,347)	(12,644)
<b>Net Income</b>	<b>28,196</b>	<b>791</b>	<b>28,987</b>	<b>27,722</b>
Retained earnings at beginning of year	281,551	14,223	295,774	268,052
Retained earnings at end of year	<u>\$309,747</u>	<u>\$15,014</u>	<u>\$324,761</u>	<u>\$295,774</u>

See accompanying notes to financial statements



CITY OF PALO ALTO  
 COMBINED STATEMENTS OF CASH FLOWS  
 ALL PROPRIETARY FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
 WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
 (In thousands of dollars)

	Enterprise	Internal Service	TOTALS (Memorandum Only)	
			1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$43,106	(\$1,606)	\$41,500	\$40,330
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation and amortization	8,746	1,701	10,447	9,832
Other		610	610	909
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(1,237)	(8)	(1,245)	218
Increase in interest receivable	(210)	2	(208)	(161)
Increase in inventory of materials and supplies		5	5	(35)
Increase in prepaid items	145	(180)	(35)	(23)
Decrease in accounts payable, accrued liabilities and accrued salaries and benefits	2,889	121	3,010	(1,035)
Increase (decrease) in accrued compensated absences		801	801	(55)
Increase in accrued self-insurance		(270)	(270)	87
Increase in accrued landfill closure liability	306		306	247
Net cash from operating activities	<u>53,745</u>	<u>1,176</u>	<u>54,921</u>	<u>50,314</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in	619		619	213
Operating transfers (out)	<u>(13,242)</u>	<u>(105)</u>	<u>(13,347)</u>	<u>(12,644)</u>
Net cash used in non capital financing activities	<u>(12,623)</u>	<u>(105)</u>	<u>(12,728)</u>	<u>(12,431)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of fixed assets	(18,540)	(2,103)	(20,643)	(27,163)
Proceeds from sale of fixed assets		121	121	
Principal paid on long term debt	(840)		(840)	(801)
Interest paid on long term debt	(12,148)		(12,148)	(9,788)
Residual equity transfer in		2,000	2,000	
Residual equity transfer (out)		<u>(2,000)</u>	<u>(2,000)</u>	
Net cash used in capital financing activities	<u>(31,528)</u>	<u>(1,982)</u>	<u>(33,510)</u>	<u>(37,752)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income received from cash and investments	<u>10,002</u>	<u>1,783</u>	<u>11,785</u>	<u>9,262</u>
Net cash provided by (used in) investing activities	<u>10,002</u>	<u>1,783</u>	<u>11,785</u>	<u>9,262</u>
Net Cash Flows	19,596	872	20,468	9,393
Cash and cash equivalents at beginning of year	<u>138,576</u>	<u>30,898</u>	<u>169,474</u>	<u>160,081</u>
Cash and cash equivalents at end of year	<u>\$158,172</u>	<u>\$31,770</u>	<u>\$189,942</u>	<u>\$169,474</u>
<b>FINANCIAL STATEMENT PRESENTATION:</b>				
Cash and investments available for operations	\$155,417	\$31,770	\$187,187	\$165,234
Restricted cash and investments	<u>2,755</u>		<u>2,755</u>	<u>4,240</u>
Cash and cash equivalents at end of year	<u>\$158,172</u>	<u>\$31,770</u>	<u>\$189,942</u>	<u>\$169,474</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b> Increase in contributed capital		\$143	\$143	\$451

See accompanying notes to financial statements

## CITY OF PALO ALTO

### INDEX TO THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Notes are essential to present fairly the information contained in the overview level of general purpose financial statements. Narrative explanations are intended to communicate information that is not readily apparent or cannot be included in the statements and schedules themselves, and to provide additional disclosures as required by the Governmental Accounting Standards Board.

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**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Palo Alto was incorporated in 1894 and operates as a charter city, having had its first charter granted by the State of California in 1909. The City operates under the Council-Manager form of government and provides the following services: public safety (police and fire), public works, electric, water, gas, wastewater, storm drain, refuse, golf course, planning and zoning, general administration services, library, open space and science, recreational and human services.

**A. Reporting Entity**

The City is governed by a nine member council elected by City residents. The City is legally separate and fiscally independent which means it can issue debt, set and modify budgets and fees and sue or be sued. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The financial statements of the City of Palo Alto include the financial activities of the City as well as the Palo Alto Public Improvement Corporation and the City of Palo Alto Golf Course Corporation, both of which provide financing of public capital improvements for the City. Their governing boards must be approved by City Council. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

**The Palo Alto Public Improvement Corporation** provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects which are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the COPs. The Corporation is controlled by the City, which performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Civic Center Debt Service Fund and general long term obligations account group.

**The City of Palo Alto Golf Course Corporation** provides financing of golf course improvements for the City through the issuance of Lease Revenue Bonds (Bonds), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the Bonds are used to construct projects which are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the Bonds. The Corporation is controlled by the City, which performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Golf Course Debt Service Fund and general long term obligations account group.

Financial statements for the above component units may be obtained from the City of Palo Alto, Administrative Services Department, 250 Hamilton Avenue, Palo Alto, CA 94301.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. *Fund Accounting***

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. These various funds are grouped as follows, in the general purpose financial statements:

**GOVERNMENTAL FUND TYPES**

**General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

**Debt Service Funds** are used to account for financial resources to be used for the payment of principal and interest on long-term obligations.

**Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

**PROPRIETARY FUND TYPES**

**Enterprise Funds** are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Internal Service Funds** are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

**FIDUCIARY FUND TYPES**

**Trust and Agency Funds** are used to account for assets held by the City as an agent or trustee for individuals, private organizations, other governments and/or other funds. These include agency, expendable trust, and pension trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Expendable trust funds are accounted for in the same manner as governmental funds.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. *Basis of Accounting***

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types, expendable trust and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter (generally sixty days) to be used to pay liabilities of the current period. Amounts which could not be measured or were not available were not accrued as revenue in the current fiscal year.

Those revenues susceptible to accrual are property taxes, motor vehicle in lieu fees, fines and earned grant entitlements, special assessments, intergovernmental revenues, use of money and property revenue, and interest revenue. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. Licenses and permits, state gas taxes, charges for services, forfeitures and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred, except for revenues from utility customers, which are recognized based on cycle billings. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

The City follows those Financial Accounting Standard Board Statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board Statements.

**D. *Measurement Focus***

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for on a spending or *financial flow* measurement focus, which means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of *available spendable resources*. Governmental fund types and expendable trust fund operating statements present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of *available spendable resources* during a period.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All proprietary fund types are accounted for on a cost of services or *capital maintenance* measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

**E. *Inventory of Materials and Supplies***

Materials and supplies are held for consumption and are valued at average cost. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as an expenditure at the time inventory items is used, rather than purchased.

**F. *Compensated Absences***

The liability for compensated absences includes the vested portions of vacation, sick leave, and overtime compensation pay. The City's liability for accrued compensated absences is recorded in the General Benefits and Insurance Internal Service Fund. The Fund is reimbursed through payroll charges to all other funds. Earned but unpaid vacation and overtime compensation pay is recognized as an expense or expenditure in the Proprietary and Governmental Fund Types when earned because the City has provided financial resources for the full amount through its budgetary process. Vested accumulated sick pay is paid in the event of termination due to disability and under certain conditions specified in employment agreements primarily restricted to individuals with fifteen or more years of continuous service. The City had accumulated vacation and overtime compensation pay of \$5.869 million, and vested accumulated sick pay of \$3.808 million as of June 30, 1998.

**G. *Contributed Capital***

Contributed capital represents contributions from developers and other funds received by the proprietary funds to acquire capital assets. Changes in contributed capital were as follows (in thousands):

	Enterprise Funds	Internal Service Funds
Balance, June 30, 1996	\$58,593	\$5,546
Contributions from other funds		451
Balance, June 30, 1997	58,593	5,997
Contributions from other funds		143
Balance, June 30, 1998	<u>\$58,593</u>	<u>\$6,140</u>

During the year ended June 30, 1998, the City transferred contributed capital amounting to \$2 million from the Vehicle Replacement and Maintenance Internal Service Fund to the Computer Equipment Replacement Internal Service Fund.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. *Property Tax***

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

**I. *Classification Changes***

For the year ended June 30, 1998, certain account classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the June 30, 1998 presentation.

**J. *New Fund***

During the year ended June 30, 1998, the City established the Computer Replacement Internal Service Fund to account for the maintenance and replacement of computer equipment used by all City departments.

**K. *Rounding***

All amounts included on the combined statements, footnotes, and combining statements and schedules are presented to the nearest thousands in accordance with the City's policy.

**L. *Total Columns on Combined Statements***

Although each of the City's funds is a separate accounting entity, the Combined Financial Statements also include total columns, which are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flow in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, since no interfund eliminations have been made in the aggregation of this data.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

**A. *Budgets and Budgetary Accounting***

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a budget ordinance for all funds except for Trust and Agency Funds.
4. The City Manager is authorized to reallocate funds from a contingent account maintained in the General Fund in conformance with the adopted policies set by the City Council. Additional appropriations to departments in the General Fund, or to total appropriations for each other budgeted fund, or transfers of appropriations between funds, require approval by the City Council.
5. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund, at the fund level for Special Revenue and Debt Service Funds.
6. Formal budgetary integration is employed as a management control device during the year in all funds except Trust and Agency Funds.
7. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds.
8. Expenditures for the Capital Projects Fund are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**B. *Reconciliation with Original Appropriations***

Budgeted expenditure amounts in the budgetary comparison statements are reconciled below with the amounts originally appropriated by City Council (in thousands):

<u>Fund</u>	<u>Original Appropriations</u>	<u>Amendments (net)</u>	<u>Amended Budget</u>
<b>General Fund</b>	\$83,356	(\$1,926)	\$81,430
<b>Special Revenue Funds:</b>			
Federal Revenue	860	123	983
Housing In-Lieu	50	992	1,042
Local Law Enforcement		331	331
Downtown Planned Community	50	(50)	
<b>Debt Service Funds:</b>			
Terman Lease	502		502
Golf Course	153		153
Civic Center	816		816
Special Assessment Debt	855		855



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

**C. Encumbrances**

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

**NOTE 3 - CASH AND INVESTMENTS**

The City pools cash from all sources and all funds except Cash and Investments with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Investment income is allocated among funds on the basis of average month-end cash and investment balances in these funds.

**A. Categorization of Credit Risk of Securities Instruments**

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all its investments, regardless of their form.

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk.

The three levels of risk prescribed by generally accepted accounting principles are described below:

**Category 1** - The City is the registered owner of securities held in book entry form by the bank's Trust Department. Securities instruments in this category are in the City's name and are in the possession of the Trust Department of the bank employed by the City solely for this purpose.

**Category 2** - Securities instruments and book entry form securities in this category are held by the Bank's Trust Department as the City's agent in the City's name.

**Category 3** - None of the City's investments are in this category, which would include only City-owned securities instruments or book entry form securities which were not in the City's name and not held by the bank's Trust Department.

**Pooled Investments** - Pooled investments are not categorized because of their pooled, rather than individual, nature.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investments are carried at fair market value (see F. below) and are categorized as follows at June 30 (in thousands):

	1998			1997
	Cash and Investments			
	Available for Operations	Restricted	Total	
<b>Category 1 Investments:</b>				
U.S. Treasury Obligations	\$15,108		\$15,108	\$24,968
U.S. Agency Obligations	215,087		215,087	187,358
<b>Category 2 Investments:</b>				
U.S. Treasury Obligations		\$170	170	163
U.S. Agency Obligations		761	761	
<b>Pooled Investments (non Categorized):</b>				
Local Agency Investment Fund	18,796		18,796	10,000
Mutual funds (government securities)	5,100	2,788	7,888	6,114
<b>Total Investments</b>	<b>254,091</b>	<b>3,719</b>	<b>257,810</b>	<b>228,603</b>
Cash in banks and on hand	6,084	94	6,178	1,718
<b>Total Cash and Investments</b>	<b>\$260,175</b>	<b>\$3,813</b>	<b>\$263,988</b>	<b>\$230,321</b>

The City must maintain required amounts of cash and investments with trustees agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All these funds have been invested as permitted under the Code.

Cash and investments maturing in three months or less at the time of purchase are considered to be liquid assets for purposes of measuring cash flows.

**B. Cash Deposits**

Cash in banks is entirely insured or collateralized by the institution holding the deposit. California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all municipal deposits. This collateral is considered to be held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The carrying amount of the City's cash deposits was \$6.178 million at June 30, 1998. Bank balances before reconciling items were \$7.195 million, of which \$195 thousand was insured (Category 1) and \$7 million was collateralized as discussed above (Category 2) at June 30, 1998.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**C. Market Risk and Investment Maturities**

Market risk is the risk that investments will decline in market value. The City limits market risk by limiting the types and maturities of its investments and by not borrowing against its investments. Investment yield is ranked after safety and liquidity in making investment decisions. All investments are held to maturity and maturities are matched to the City's projected cash flow needs. Investments at fair market value matured as follows at June 30 (in thousands):

	1998	1997
Available immediately	\$29,124	\$25,277
Maturities of less than one year	60,387	35,120
Maturities of one to five years	167,915	167,795
Maturities of five to eighteen years	384	411
Total Investments	\$257,810	\$228,603

**D. Authorized City Investments**

Investment instruments authorized for purchase include:

1. Securities of the U.S. Government or its agencies. No more than ten percent of the portfolio shall be invested in Farm Credit Securities, and no more than two percent of the portfolio shall be invested in the Guaranteed Portion of Small Business Administration Notes. These securities shall include Callable and Multi-step-up securities, limited to no more than twenty percent of the City's portfolio, provided that:
  - the potential call dates are known at the time of purchase;
  - the interest rates at which they "step-up" are known at the time of purchase; and
  - the entire face value of the security is redeemed at the call date.
2. Certificates of Deposit (or Time Deposits) with federally insured institutions. No more than ten percent of the City's portfolio may be invested in CD's.
3. Bankers Acceptance Notes with maturities less than two hundred seventy days. Purchases from any one bank may not exceed \$5 million, and total bankers acceptance notes may not exceed thirty percent of the City's investment portfolio.
4. Short-term Commercial Paper. Purchases of commercial paper may not exceed 180 days maturity or more than fifteen percent of the City's investment portfolio, and purchases from any one institution may not exceed \$3 million.
5. State of California Local Agency Investment Fund.
6. Short-term Repurchase Agreements.
7. City of Palo Alto Bonds.
8. Money Market Deposit Accounts.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

9. Mutual Funds which are limited essentially to the above investments, registered with the Federal Securities and Exchange Commission (SEC), and which are rated in the highest rating category by a nationally recognized rating service. No more than twenty percent of the City's portfolio may be invested in mutual funds, and no more than ten percent of the portfolio may be in any one Mutual Fund.

**E. *Marking Investments to Fair Market Value (GASB 31)***

In fiscal 1998 the City adopted Government Accounting Standards Board Statement 31, which requires that the City's investments be carried at fair market value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair market value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its market value at each succeeding fiscal year end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year end.

GASB 31 requires the City to restate June 30, 1997 fund balances for fair market value adjustments, if material. The City has determined that the amounts of any such restatements would not be material; accordingly, only June 30, 1998 balances have been adjusted to fair market value.

At June 30, 1998 the fair market value of the City's investments was \$1.939 million higher than the carrying value, resulting in a recognized gain for accounting purposes which was not realized in cash. The gain has been included in fiscal 1998 income. The governmental funds portion of this gain has been fully designated in Fund Balance, since the recognized gains have not been realized. Proprietary, trust and agency funds have been adjusted to reflect the portion of this gain allocable to those funds.

**F. *Return on Investments***

The City's realized return on investments comprises only interest income; there were no realized gains or losses on sales of securities since all were held to maturity. Recognized return on investments during the fiscal year ended June 30, 1998 represented a return of 6.58% on the City's quarter-end average investment balances. This income is allocated among funds on the basis of their average month-end cash and investment balances.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The composition of the return on investments for all the City's funds was \$14.827 million in interest income plus \$1.939 million representing the net gains recognized as a result of market value changes. These amounts total to \$16.766 million representing the total return on investments.

**NOTE 4 - INTERFUND TRANSACTIONS**

**A. Operating Transfers Between City Funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund. Operating transfers between City funds during fiscal year 1998 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
<b>General Fund</b>	Street Improvement Special Revenue Fund	\$267
	Federal Revenue Special Revenue Fund	203
	Special Districts Special Revenue Fund	430
	Water Enterprise Fund	2,044
	Electric Enterprise Fund	7,336
	Gas Enterprise Fund	2,475
<b>Local Law Enforcement Special Revenue Fund</b>	General Fund	3
<b>Debt Service Funds:</b>		
Terman Lease	General Fund	141
Civic Center	General Fund	714
Civic Center	Special Districts Special Revenue Fund	80
<b>Capital Project Fund</b>	General Fund	6,964
	Street Improvement Special Revenue Fund	1,068
	Transportation Mitigation Special Revenue Fund	948
	Downtown Planned Community Special Revenue Fund	250
	Water Enterprise Fund	152
	Electric Enterprise Fund	427
	Gas Enterprise Fund	93
	Wastewater Collection Enterprise Fund	48
	Wastewater Treatment Enterprise Fund	26
	Refuse Enterprise Fund	34
	Storm Drain Enterprise Fund	17
	Vehicle Replacement & Maintenance Internal Service Fund	105
<b>Enterprise Funds:</b>		
Electric	Water Enterprise Fund	93
Electric	Gas Enterprise Fund	235
Electric	Wastewater Collection Enterprise Fund	46
Electric	Refuse Enterprise Fund	55
Electric	Storm Drain Enterprise Fund	19
Refuse	Special Districts Special Revenue Fund	29
Refuse	Water Enterprise Fund	24
Refuse	Electric Enterprise Fund	47
Refuse	Gas Enterprise Fund	47
Refuse	Wastewater Collection Enterprise Fund	24
		<u>\$24,444</u>

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

**B. Current Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 1998, the Federal Revenue Special Revenue Fund owed the General Fund \$514 thousand.

**NOTE 5 - NOTES AND LOANS RECEIVABLE**

At June 30, 1998, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation and Affiliates:	
Oak Manor Townhouse	\$1,501
Emerson Street Project	375
Stevenson House	20
Alma Single Room Occupancy Development	2,695
Barker Hotel	1,400
Home Rehabilitation Loans	406
Executive Relocation Assistance Loans	689
Total	\$7,086

**A. Housing Loans**

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to home-owners or developers who agree to spend these funds in accordance with the City's terms. These loans have been offset by reserved fund balance as they are not expected to be repaid immediately.

**Oak Manor Townhouse**

On January 7, 1991, the City loaned \$2.1 million to assist in the acquisition of an apartment complex to be used to provide rental housing for low and very low income households. This loan bears interest at three percent, is due in annual installments until 2011 and is collateralized by a subordinated deed of trust. Under the terms of the loan agreement, loan payments are forgiven if the Corporation meets the objective of this project. During the year ended June 30, 1998 the City forgave the \$141 thousand annual loan payment due under the agreement.

**Emerson Street Project**

On November 8, 1994 the City loaned \$375 thousand for expenses necessary to acquire an apartment complex for the preservation of rental housing for low and very low income households in the City. This loan is collateralized by a first deed of trust. The loan bears no interest until 2009 after which the loan bears interest at three percent per year. The principal balance is due in 2034.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

**Stevenson House**

On December 26, 1989, the City loaned \$20 thousand for repair costs of the Stevenson House complex. This loan bears interest at three percent per year and is collateralized by a deed of trust. Loan repayment is deferred until December 1999 when it is due in full.

**Alma Single Room Occupancy Development**

On December 13, 1996 the City loaned \$2.695 million to the Alma Place Association for the development of a 106 unit single room occupancy development. This loan bears interest at three percent and is collateralized by a first deed of trust. Loan payments are deferred until 2011. The principal balance is due in 2041.

**Barker Hotel**

On April 12, 1994 the City loaned a total of \$2.07 million for the preservation, rehabilitation and expansion of a low income, single room occupancy hotel. This loan was funded by three sources: \$400 thousand from the Housing In-Lieu Special Revenue Fund, \$1 million from HOME Investment Partnership Program Funds, and \$670 thousand from Community Development Block Grant Funds. All three notes bear no interest and are collateralized by a deed of trust which is subordinated to private financing. Loan repayments are deferred until 2035. The City does not expect to collect the entire loan balance and has therefore recorded an allowance for doubtful accounts amounting to \$670 thousand to reduce the carrying value of the loans to \$1.4 million.

**Home Rehabilitation**

The City administers a closed housing rehabilitation loan program initially funded with Community Development Block Grant funds. Under this program, individuals with incomes below a certain level are eligible to receive low interest loans, for rehabilitation work on their homes. These loans are secured by deeds of trusts, which may be subordinated to subsequent encumbrances upon said real property with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred or a combination of both.

**B. *Executive Relocation Assistance Loans***

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust and interest is adjusted annually based on the rate of return of the invested funds of the City for the year ending June 30 plus one quarter of 1%. Principal and interest payments are due bi-weekly. Employees must pay off any outstanding balance of their loans within a certain period of ending employment with the City. As of June 30, 1998, the City had 2 outstanding employee home loans, one due in 2006 and the other due in 2023.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

The General Fixed Assets Account Group provides accounting control over the cost of fixed assets used by the City's governmental funds. The General Fixed Assets Account Group is not a fund and its balances are not financial resources available for expenditure. Rather, they provide an historical accounting record of resources expended on general fixed assets. Public domain (infrastructure) general fixed assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized because these assets are immovable and of value only to the public. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT**

Proprietary fund fixed assets are recorded at cost and depreciated over their estimated useful lives. Significant interest costs incurred under restricted tax-exempt borrowings to finance the construction of property, plant and equipment are capitalized during the construction period, net of interest earned on investment of the proceeds of such borrowings. Maintenance and repairs are expensed as incurred. The purpose of depreciation is to spread the cost of proprietary fund fixed assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of proprietary fund fixed assets.

Depreciation of all proprietary fund fixed assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the proprietary funds' balance sheet as a reduction in the book value of the fixed assets.

Depreciation of fixed assets in service is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to proprietary fund fixed assets.

Buildings and structures	25-60 years
Equipment:	
Vehicles and heavy equipment	3-10 years
Machinery and equipment	10-50 years
Transmission and distribution equipment	10-100 years



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

**A. General Fixed Assets**

Changes in the City's general fixed assets during the year ended June 30, 1998 were (in thousands):

	Balance June 30, 1997	Additions	Retirements	Balance June 30, 1998
<b>General Fixed Assets:</b>				
Land and improvements	\$50,579	\$981	\$286	\$51,274
Buildings and structures	48,716	405		49,121
Equipment	4,872	428		5,300
Total	<u>\$104,167</u>	<u>\$1,814</u>	<u>\$286</u>	<u>\$105,695</u>

Included in the general fixed assets account group at June 30, 1998 is \$1.75 million of construction in progress (capital improvements) expended in fiscal year 1997-98.

The City's practice is to perform physical inventory counts of fixed assets every two years on a rotational basis. In fiscal year 1996/97, a physical inventory was conducted of the City's general fixed assets which resulted in no material adjustments to the balances previously reported.

Included in land and improvements and equipment at June 30, 1998 are assets under capital leases amounting to \$6.321 million.

**B. Proprietary Fixed Assets**

Changes in the City's proprietary fund fixed assets during the year ended June 30, 1998 were (in thousands):

	Balance June 30, 1997	Additions	Retirements	Transfers	Balance June 30, 1998
<b>Enterprise Funds:</b>					
Land and improvements	\$1,541				\$1,541
Buildings and structures	11,288		\$1		11,287
Equipment	309,366	\$297	1,310	\$12,806	321,159
Construction in progress	10,691	18,250		(12,806)	16,135
Total	<u>332,886</u>	<u>\$18,547</u>	<u>\$1,311</u>		<u>350,122</u>
Less accumulated depreciation	(115,903)	(\$8,722)	(\$1,170)		(123,455)
Net fixed assets	<u>\$216,983</u>				<u>\$226,667</u>
<b>Internal Service Funds:</b>					
Equipment	\$17,719	\$2,246	\$935		\$19,030
Less accumulated depreciation	(10,578)	(\$1,701)	(\$923)		(11,356)
Net fixed assets	<u>\$7,141</u>				<u>\$7,674</u>

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

Also included in land and improvements in the Enterprise Funds is \$1.169 million of development and artwork costs incurred by the Refuse Fund as part of a project to convert a portion of a solid waste landfill site into a park.

**C. Construction in Progress and Completed Projects**

Construction in progress and projects completed in fiscal 1997-98 comprise (in thousands):

	Project Authorization	Expended to June 30, 1998	Committed
<b>Enterprise Funds:</b>			
Storm drainage structural and water quality improvements	\$4,090	\$1,802	\$839
Gas system extension replacements and improvements	3,978	2,694	1,043
Water system extension replacements and improvements	4,266	1,650	1,155
Street lighting			
Electric distribution system improvements	3,354	1,040	98
Other electrical improvement projects	7,853	6,146	1,004
Water quality control plant equipment replacement and lab facilities	723	182	417
Sewer system rehabilitation and extensions	10,423	757	1,209
Automated mapping	82	730	23
Other construction in progress	6,227	1,134	1,299
Total	<u>\$40,996</u>	<u>\$16,135</u>	<u>\$7,087</u>

Of the totals expended to June 30, 1998, costs amounting to \$12.806 million have been transferred from construction in progress to other fixed asset types for enterprise funds, respectively.

Allocations of enterprise fund administration and general expenses of \$2.684 million have been capitalized and included in amounts expended to June 30, 1998.

**NOTE 7 - GENERAL LONG TERM DEBT**

**A. The City's Long Term Debt**

The General Long Term Obligations Account Group provides accounting control over the principal of the City's general long term debt. This debt will be repaid out of governmental funds but is not accounted for in these funds because this part of the debt does not require an appropriation or expenditure in the current accounting period. Any differences between proprietary refunded debt and the debt issued to refund it is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

Bond discounts and issuance costs of Enterprise Funds' long-term debt issues are amortized over the life of the related debt. Bond discounts and issuance costs of governmental fund types related to long-term debt issues are netted against bond proceeds in the year of issuance.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 7 - GENERAL LONG TERM DEBT (Continued)**

The City's long-term debt issues and transactions were as follows (in thousands):

	Original Issue Amount	Balance June 30, 1997	Retirements	Balance June 30, 1998
<b>General Long Term Debt:</b>				
<b>1978 Golf Course Lease Revenue Bonds,</b>				
5.00-6.00%, due 03/01/2003	\$1,800	\$725	\$100	\$625
<b>1992 Certificates of Participation,</b>				
5.46-6.70%, due 02/23/12	7,670	5,675	460	5,215
<b>Terman School Capital Lease,</b>				
variable, due 11/09/2000	6,321	1,581	395	1,186
	<u>\$15,791</u>	<u>\$7,981</u>	<u>\$955</u>	<u>\$7,026</u>
<b>Enterprise Long Term Debt:</b>				
<b>Utility Revenue Bonds,</b>				
1990 Refunding, 5.7-6.8%, due 06/01/2006	\$9,650	\$6,550	\$555	\$5,995
1992 Series A, 6.3-6.375%, due 06/01/2018	4,750	4,374	104	4,270
1995 Series A, 5.0-6.25%, due 06/01/2020	8,640	8,300	180	8,120
Less: unamortized discount/issuance cost		(500)	(30)	(470)
	<u>\$23,040</u>	<u>\$18,724</u>	<u>\$809</u>	<u>\$17,915</u>

**B. Description of the City's Long Term Debt Issues**

**1978 Golf Course Corporation Lease Revenue Bonds** – The City issued Lease Revenue Bonds on March 13, 1978 to finance construction and other costs of improvement to the Palo Alto Municipal Golf Course. The Bonds are special obligations of the City payable solely from and secured by lease revenues received by the Palo Alto Golf Course Corporation from the City property taxes, golf course revenues, or other unrestricted revenues of the City. Principal payments are payable annually on March 1 and interest payments semi-annually on March 1 and September 1.

In August 1998, the City's Public Improvement Corporation issued Golf Course Improvement Certificates of Participation, Series 1998 in the amount of \$7.75 million to refund the 1978 Golf Course Lease Revenue Bonds, and to finance various improvements at the Palo Alto Public Golf Course, including upgrading five fairways and various traps, trees and greens, constructing new storm drain facilities, replacing the existing irrigation system, upgrading the driving range, and installing new cart paths. The COP's are payable secured by lease revenues received by the Public Improvement Corporation from the City property taxes, golf course revenues, or other unrestricted revenues of the City. Principal and interest are payable semi-annually each March 1 and September 1 beginning in 1999.

**1992 Civic Center Certificates of Participation** – The City issued Certificates of Participation on March 1, 1992 to refinance its 1983 Certificates of Participation and finance certain improvements of its Civic Center. Principal payments are payable annually on February 23 and interest payments semi-annually on February 23 and August 23, and are payable from lease revenues received by the Palo Alto Public Improvement Corporation from the City from available funds.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 7 - GENERAL LONG TERM DEBT (Continued)**

**Terman School Capital Lease** -- The City is purchasing a site from the Palo Alto Unified School District on an installment basis for public purposes under the discretion of the City. The lease bears annual interest at the average annual rate of return earned on the District's portfolio of investments for the fiscal year. Principal and interest payments are payable annually on November 9. The Lease is repayable from the Terman Lease Debt Service Fund.

**1990 Utility Revenue Refunding Bonds, Series A** -- The City issued Utility Revenue Refunding Bonds on August 1, 1990 to refund the outstanding principal of the City's 1985 Utility Revenue Bonds, Series A. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on December 1 and June 1.

**1992 Utility Revenue Bonds, Series A** -- The City issued Utility Revenue Bonds on April 1, 1992 to finance certain extensions and improvements to the City's Storm and Surface Water Management Enterprise. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.98 million 6.375% term bond will be due June 1, 2018

**1995 Utility Revenue Bonds, Series A** -- The City issued Utility Revenue Bonds on February 1, 1995 to finance certain extensions and improvements to the City's Storm Drainage and Surface Water System. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.86 million 6.25% term bond will be due June 1, 2020.

**C. Debt Service Requirements (in thousands)**

For the Year Ending June 30	Lease Revenue Bonds	Certificate of Participation	Capital Lease	Utility Revenue Bonds	Totals
1999	\$136	\$816	\$490	\$2,058	\$3,500
2000	155	813	458	2,058	3,484
2001	148	822	428	2,063	3,461
2002	141	818		2,059	3,018
2003	159	817		2,056	3,032
Thereafter		3,082		20,356	23,438
	739	7,168	1,376	30,650	39,933
Less amount representing interest	114	1,953	190	12,265	14,522
Principal amount due	\$625	\$5,215	\$1,186	\$18,385	\$25,411

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 7 - GENERAL LONG TERM DEBT (Continued)**

**D. Debt Call Provisions**

Long-term debt as of June 30, 1998 is callable on the following terms and conditions:

	<u>Initial Call Date</u>	
<b>General Long Term Debt:</b>		
1978 Golf Course Lease Revenue Bonds	3/1/88	(1)
1992 Certificates of Participation	3/1/01	(4)
<b>Special Assessment Bonds, with City's Commitment</b>		
1975 California Avenue Parking	7/2/85	(1)
1977 University Avenue Parking	7/2/87	(1)
1987 California Avenue Parking,	9/2/96	(3)
1989 University Avenue Area Off-Street Parking,	9/1/00	(2)
<b>Enterprise Long Term Debt:</b>		
<b>Utility Revenue Bonds -</b>		
1990 Refunding	6/1/99	(2)
1992 Series A	6/1/01	(2)
1995 Series A	6/1/04	(2)

- (1) Callable in inverse numerical order of maturity at par plus a premium of .25% for each year from redemption to maturity date.
- (2) Callable in inverse numerical order of maturity at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.
- (3) Callable in inverse numerical order of maturity at par plus a premium of 3% beginning on the initial call date. The call price declines subsequent to the initial date.
- (4) Callable in any order specified by the City at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.

**E. Leasing Arrangements**

Certificates of Participation, Lease Revenue Bonds, and Capital Leases are issued for the purpose of financing the construction or acquisition of projects defined in each leasing arrangement. Projects are leased to the City for lease payments which, together with unspent proceeds of the leasing arrangement, will be sufficient to meet the debt service obligations of the leasing arrangement. At the termination of the leasing arrangement title to the project will pass to the City.

Leasing arrangements are similar to debt; they allow investors to participate in a share of guaranteed payments which are made by the City. Because they are similar to debt, the present value of the total of the payments to be made by the City is recorded as long-term debt. The City's leasing arrangements are included in long-term obligations discussed above.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 7 - GENERAL LONG TERM DEBT (Continued)**

**F. Debt without City's Commitment**

On December 15, 1996, the City acted as a financial intermediary in order to assist Lytton Gardens Health Care Center in issuing Insured Revenue Refunding Bonds. The Bonds are payable solely from revenues collected by Lytton Gardens Health Care Center. The City has not included these bonds in its general purpose financial statements since it is not legally or morally obligated for the repayment of the bonds. At June 30, 1998 the amount of Bonds outstanding was \$13.015 million.

**NOTE 8 - SPECIAL ASSESSMENT DEBT**

**A. Special Assessment Debt with City Commitment**

Special assessment districts exist in the City to provide improvements to properties located in those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and a deferred revenue at the time the related debt is issued, and reduced as assessments are collected. The City is obligated to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 1998 all these districts were in compliance with the repayment and other requirements of their respective debt issues. The City accounts for resources available to pay special assessment debt in its Debt Service Funds. The special assessment debt is included in the General Long-Term Obligations Account Group.

Special assessment debt with City commitment comprises the following issues (in thousands):

	Original Issue Amount	Balance June 30, 1997, As Restated	Retirements	Balance June 30, 1998
<b>General Long-Term Debt:</b>				
1975 California Avenue Parking 7.00-7.50%, due 07/02/00	\$420	\$125	\$30	\$95
1977 University Avenue Parking 5.40-7.75%, due 07/02/03	791	345	45	300
1987 California Avenue Parking, 6.70-9.25%, due 09/02/2007	1,325	930	60	870
1989 University Avenue Area Off-Street Parking, 5.75-6.90%, due 09/01/06	6,420	4,735	315	4,420
	<u>\$8,956</u>	<u>\$6,135</u>	<u>\$450</u>	<u>\$5,685</u>

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 8 - SPECIAL ASSESSMENT DEBT (Continued)**

Special assessment debt service requirements, including principal and interest, are as follows (in thousands):

For the Year Ending June 30	Special Assessment Debt with City's Commitment
1999	\$860
2000	862
2001	876
2002	852
2003	865
Thereafter	3,297
	7,612
Less amount representing interest	1,927
Principal amount due	\$5,685

**B. Description of Special Assessment Debt with City's Commitment**

**1975 California Avenue District Offstreet Parking Assessment District Bonds** -- The City issued Special Assessment Bonds on January 2, 1975 to finance the acquisition of land and related improvements for the purpose of providing public parking in the City. Principal payments are payable annually on July 2 and interest payments semi-annually on January 2 and July 2.

**1977 University Avenue Area Offstreet Parking Assessment District Bonds** -- The City issued Special Assessment Bonds on June 2, 1977 to finance the acquisition of land and construction for the purpose of providing public parking in the City. Principal payments are payable annually on July 2 and interest payments semi-annually on January 2 and July 2.

**1987 California Avenue Parking Assessment District Assessment Bonds** -- The City issued Special Assessment Bonds on March 30, 1987 to finance the acquisition of land and related improvements for the purpose of providing public parking in the City. Principal payments are payable annually on September 2 and interest payments semi-annually on March 2 and September 2.

**1989 University Avenue Area Off-street Parking Assessment District Refunding and Improvement Bonds** -- The City issued Special Assessment Bonds on December 18, 1989 to advance refund all of the outstanding University Avenue Lot J Parking Garage Assessment District Bonds of 1984 and to provide funds for the acquisition of one floor of public parking in a parking structure. Principal payments are payable annually on September 1 and interest payments semi-annually on March 1 and September 1.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 8 - SPECIAL ASSESSMENT DEBT (Continued)**

**C. Special Assessment Debt with no City Commitment**

During fiscal 1998 a review was performed of the City's responsibilities with respect to the California Avenue Parking Assessment District No. 92-13 Assessment Bonds of 1993. This review determined that the City has no legal or moral liability for the special assessment debt issued by this District; this debt is payable solely out of the special assessments on property owners in this District. Accordingly, the City no longer reflects the debt of this District, which totaled \$1.945 million at June 30, 1997, in its financial statements. Also, as a result of the above, the general long term debt account group was restated to remove the balance of these bonds. In addition, fund balances for these bonds, which were included in the Special Assessment Debt Service Fund in the prior year, were recategorized as an Agency Fund liability. The effect of this change was to reduce debt service fund balance by \$437 thousand and increase due to assessment district bondholders by the same amount as of June 30, 1997.

The California Avenue Parking Assessment District has also issued debt, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. At June 30, 1998, the District's outstanding debt amounted to \$1.885 million.

**NOTE 9 - LANDFILL CLOSURE AND POSTCLOSURE CARE**

State and federal laws and regulations require the City to place a final cover on the remaining open areas of the Palo Alto Refuse Disposal Site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure costs of \$1.561 million were reported in fiscal 1991-92, when a section of the refuse area was capped with a final cover and Byxbee Park was constructed on top of that section. A second section of the refuse area was capped with a final cover during fiscal year 1992-93, with closure costs of \$904 thousand. The remaining closure and postclosure care costs are expected to be paid only near and after the date that the refuse site stops accepting waste. Estimates of these costs are based upon current costs in 1995 and are adjusted annually for inflation. Those estimates since 1995 are as follows (in thousands):

<u>Year</u>	<u>Estimate</u>
1995	\$7,661
1996	7,891
1997	8,128
1998	8,371

The \$7.238 million reported as landfill closure and postclosure care liability at June 30, 1998 represents 86.46% of the estimated remaining closure and postclosure care costs, which is based upon the estimated capacity of the remaining landfill area utilized to date. The City will recognize a portion of the remaining estimated total cost of closure and postclosure care as an operating expense in each subsequent fiscal year, based on landfill capacity.

Total cost estimates are based on what it would cost to perform all currently mandated closure and postclosure care in 1998. The City expects to close the refuse area in the year 2013. Actual closure and postclosure care costs may be higher due to inflation variances, changes in technology, or changes in State or federal regulations.



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 9 - LANDFILL CLOSURE AND POSTCLOSURE CARE (Continued)**

The City is required by State and federal laws and regulations to make annual funding contributions to finance closure and postclosure care. The City is in compliance with these requirements for the year ended June 30, 1998 with the establishment of the fully-funded liability for this purpose.

**NOTE 10 - FUND EQUITY**

**A. Fund Equity**

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and may never be legally authorized or result in expenditures.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The City cannot modify or remove these restrictions or reserves.

Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

**B. Governmental Funds**

At June 30, 1998, fund balance reservations and designations included (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Fund	Expendable Trust Fund
Reserved for:					
Encumbrances & Reappropriations	\$5,036	\$6,027		\$20,626	
Notes	689	6,397			
Debt Service			\$2,191		
Inventory of materials and supplies	1,953				
<b>Total Reserved Fund Balance</b>	<b>\$7,678</b>	<b>\$12,424</b>	<b>\$2,191</b>	<b>\$20,626</b>	
Unreserved; designated for:					
Unrealized gain on investment	\$450	\$40	\$1		\$59
Streets and sidewalks/school site projects	263				
Capital and special revenue projects		5,385			
Budget stabilization	19,050				
Infrastructure	12,588				
Emergencies	5,875				
<b>Total Unreserved/Designated Fund Balances</b>	<b>\$38,226</b>	<b>\$5,425</b>	<b>\$1</b>		<b>\$59</b>

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 10 - FUND EQUITY (Continued)**

Reserve for **encumbrances and reappropriations** represents the portion of fund balance set aside for open purchase orders.

Reserves for **notes and inventory** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long term liabilities.

Designated for **unrealized gain on investments** is the portion of fund balance for gains or losses on investments resulting from changes in fair market values recognized for financial statement purposes but not realized, since these investments have not been sold.

Designated for **streets and sidewalks/school site projects** is the portion of fund balance for use on capital outlay projects.

Designated for **capital and special revenue projects** is the portion of fund balance for use on capital outlay projects.

Designated for **budget stabilization** is the portion of fund balance to be used for undesignated unreserved fund balance.

Designated for **infrastructure** is the portion of fund balance to be used for financing future capital improvements.

Designated for **emergencies** is the portion of fund balance to be used for fund expenditures in emergency situations.

**C. Internal Service Funds**

At June 30, 1998, internal service fund retained earnings reservations and designations included (in thousands):

Reserved retained earnings-	
Commitments and reappropriations	\$2,599
Unreserved:	
Designated for future catastrophic losses	5,031
Undesignated	<u>7,384</u>
Total	<u><u>\$15,014</u></u>

Reserve for **commitments and reappropriations** represents the portion of fund balance set aside for open purchase orders.

Designated for **future catastrophic losses** is the portion of fund balance to be used for unforeseen future losses.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 10 - FUND EQUITY (Continued)**

**D. Enterprise Funds**

At June 30, 1998, enterprise fund retained earnings reservations and designations included (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Reserved retained earnings:								
Emergency plant replacement	\$829	\$2,263	\$683	\$388	\$1,191			\$5,354
Rate stabilization	7,502			7,407	3,427	\$5,971	\$520	24,827
Distribution rate stabilization		8,120	7,889					16,009
Supply rate stabilization		14,560	8,544					23,104
Calaveras		55,583						55,583
Commitments and reappropriations	3,192	5,931	1,772	8,331	3,468	2,356	2,664	27,714
Underground loan		617						617
Conservation loan			634					634
Refuse water resources						590		590
Shasta Rewind loan		1,697						1,697
Central Valley project		1,032						1,032
Public benefit program		1,533						1,533
<b>Total</b>	<b>11,523</b>	<b>91,336</b>	<b>19,522</b>	<b>16,126</b>	<b>8,086</b>	<b>8,917</b>	<b>3,184</b>	<b>158,694</b>
Unreserved retained earnings								
	<u>21,596</u>	<u>78,400</u>	<u>28,411</u>	<u>15,951</u>	<u>1,267</u>	<u>4,851</u>	<u>577</u>	<u>151,053</u>
<b>Total retained earnings</b>	<b><u>\$33,119</u></b>	<b><u>\$169,736</u></b>	<b><u>\$47,933</u></b>	<b><u>\$32,077</u></b>	<b><u>\$9,353</u></b>	<b><u>\$13,768</u></b>	<b><u>\$3,761</u></b>	<b><u>\$309,747</u></b>

The City Council has internally committed unreserved retained earnings for general contingencies, future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains seven enterprise funds. These funds are intended to be self-supporting, through user fees charged for services rendered. Segment information for these funds for the year ended June 30, 1998 follows (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Operating revenues	\$12,255	\$81,142	\$18,890	\$9,485	\$11,321	\$21,163	\$2,089	\$156,345
Depreciation and amortization	694	4,186	1,060	870	1,522	185	229	8,746
Operating income	3,456	30,645	4,388	2,976	285	900	456	43,106
Operating transfers in		447				172		619
Operating transfers (out)	(2,313)	(7,810)	(2,850)	(118)	(26)	(89)	(36)	(13,242)
Net income	1,890	17,586	2,759	3,673	509	1,575	204	28,196
Property, plant & equipment:								
Additions	2,157	7,357	3,609	2,590	675	81	2,071	18,540
Retirements	83	518	135	372	202			1,310
Net working capital	11,523	91,336	19,522	16,126	8,085	8,917	3,184	158,693
Total assets	41,783	190,992	52,114	43,059	35,350	22,096	16,032	401,426
Bonds and contracts, net of bond discount, payable from operating revenues				1,855	4,036		12,024	17,915
Total equity	40,870	186,874	51,225	41,107	30,735	13,768	3,761	368,340

**A. CALPERS Safety and Miscellaneous Employees Plans**

Substantially all permanent City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 1998, are summarized as follows:

	Safety		
	Police	Fire	Miscellaneous
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of annual salary	2% - 2.7%	2% - 2.7%	1.092% - 2.418%
Required employee contribution rates	9%	9%	7%
Required employer contribution rates	16.864%	14.451%	5.962%
Actuarially required contributions (in thousands)	\$981	\$1,383	\$2,591

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 12 - PENSION PLANS**

The City's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.5% is assumed, including inflation at 4.5%. Annual salary increases are assumed to vary by duration of service. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period ends June 30, 2016 for both Plans.

The Plans' actuarial value (which differs from market value) and funding progress over the past three years is set forth below at their actuarial valuation date of June 30 (in thousands):

**Safety Police Plan:**

Actuarial						
Valuataion Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1994	\$32,265	\$37,188	\$4,923	97.5%	\$5,377	17.2%
1995	38,601	41,030	2,429	94.1%	5,325	45.6%
1996	42,921	46,058	3,137	93.2%	5,460	57.4%

**Safety Fire Plan:**

Actuarial						
Valuataion Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1994	\$52,886	\$55,418	\$2,532	95.4%	\$8,369	30.3%
1995	56,381	59,318	2,937	95.0%	8,765	33.5%
1996	63,090	65,714	2,624	96.0%	9,685	27.1%

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 12 - PENSION PLANS (Continued)**

*Miscellaneous Plan:*

Actuarial					Unfunded	
Valuataion Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as a % of Payroll
1994	\$118,167	\$116,980	(\$1,187)	101.0%	\$37,197	(3.2%)
1995	128,631	126,484	(2,147)	101.7%	39,794	(5.4%)
1996	146,654	137,747	(8,907)	106.5%	37,592	(23.7%)

Audited annual financial statements and ten year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The market value of the net assets in the Plans changed as follows during the year ended June 30, 1996 (in thousands):

	Safety		
	Police	Fire	Miscellaneous
<b>Additions to Plan Assets:</b>			
Employer Contributions	\$747	\$1,172	\$2,674
Plan Member Contributions	514	661	2,621
Net Investment Income	5,078	7,494	17,333
<b>Deductions from Plan Assets:</b>			
Benefits Paid	(1,996)	(2,634)	(4,550)
Refunds of Contributions	(41)	(6)	(206)
<b>Net Assets Held for Pension Benefits:</b>			
Beginning of Year	38,481	56,241	127,450
End of Year	42,783	62,928	145,322

Additional disclosures will be included when made available by PERS.

**NOTE 13 - RETIREE HEALTH BENEFITS**

In addition to providing pension benefits, the City participates in the California Public Employees Medical and Health Care Act program to provide certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The costs of retiree health care are recognized as expenditures when premiums are paid. For fiscal 1998, expenditures for retiree health care for approximately 435 eligible retired employees totaled \$953 thousand, including administrative fees. The premium is based upon an average annual cost of coverage per retiree of \$2 thousand.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 13 - RETIREE HEALTH BENEFITS (Continued)**

In the fiscal year ended June 30, 1993, the City received a \$6.1 million refund from the California Public Retirement System ("CALPERS") through the passage of Assembly Bill (AB) 702. This amount was placed in trust to defer future costs of retiree health care coverage. During the fiscal year ended June 30, 1995, the City established and transferred the amount to an expendable trust fund. The trust fund is to provide funding of retiree health benefits to the extent that actual health care premium costs exceed 1.5% of the City's gross payroll costs in any fiscal year. Approval by the City Council is required if the money is to be expended for any other purpose. In fiscal year 1997-98, the \$948 thousand premium represented 1.49% of gross Citywide payroll.

The Retiree Health Benefit Expendable Trust Fund's fund balance consists of the following for the fiscal year ended June 30 (in thousands):

	1998	1997
Fund balance, beginning of year	\$7,135	\$6,727
Interest earnings	496	408
Fund balance, end of year	\$7,631	\$7,135

**NOTE 14 - DEFERRED COMPENSATION PLAN**

City employees may defer a portion of their compensation under three separate, optional City sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these Plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

All assets of the Plans, including participant contributions and earnings therefrom, are the property of the City. These assets may also be claimed by the general creditors of the City; however, the City believes the likelihood of any such claim is remote. Participants rights under the Plans are equal to those of general creditors of the City.

The City has no liability for any losses incurred by the Plans and does not participate in any gains, but it does have the duty of due care that would be required of an ordinary prudent investor. The City has contracts with International City Manager's Association (ICMA), Washington Mutual (formerly Great Western Bank) and ITT Hartford Life Insurance Companies to manage and invest the assets of the Plans. All assets of the Plans are pooled with those of other participants and does not make separate investments for the City

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 14 - DEFERRED COMPENSATION PLAN(Continued)**

The Plans require investments to be stated at fair market value and they require all gains and losses on Plan investments to accrue directly to participants accounts. Increases and decreases in Plan assets during the fiscal year ended June 30, 1998 were as follows (in thousands):

	The Hartford	ICMA	Washington Mutual	TOTAL
Beginning balance	\$29,699	\$17,794	\$766	\$48,259
Contributions from participants	1,597	2,997		4,594
Net investment gains	4,779	3,370	46	8,195
Payments to participants and administrative fees	(1,984)	(370)	(82)	(2,436)
Balance at end of fiscal year	<u>\$34,091</u>	<u>\$23,791</u>	<u>\$730</u>	<u>\$58,612</u>

**NOTE 15 - RISK MANAGEMENT**

**A. Coverage**

The City provides dental coverage to employees through programs which are administered by a service agent. The City is self-insured for the dental coverage.

The City has a workers' compensation insurance policy with coverage up to the statutory limit set by the State of California. The City retains the risk for the first \$500 thousand in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5 thousand deductible and coverage up to \$1 million per loss. The City's property and machinery insurance policy has various deductibles and various coverages based on the kind of machinery.

The City is a member of the Authority for California Cities Excess Liability (ACCEL) which provides general liability, including auto liability, insurance coverage up to \$20 million per occurrence. The City retains the risk for the first \$1 million in losses for each occurrence under this policy.

ACCEL was established for the purpose of creating a risk management pool for central California municipalities. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. The board controls the operations of ACCEL, including selection of management and approval of the annual budget.

The City's deposits with ACCEL equal the ratio of the City's payroll to the total payrolls of all entities. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the fiscal year ended June 30, 1998 the City contributed \$384 thousand to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 160 Spear Street, San Francisco, California 94105.



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 15 - RISK MANAGEMENT (Continued)**

**B. Claims Liability**

The City provides for the uninsured portion of claims and judgments in the General Benefits and Insurance Internal Service Fund. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed, above, the City has a coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The City's liability for uninsured claims is limited to dental, general liability, and workers' compensation claims, as discussed above, and was estimated by management based on prior years claims experience as follows (in thousands):

	Year Ended June 30	
	1998	1997
Beginning Balance	\$7,920	\$7,833
Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR)	2,586	2,583
Claims paid	(2,856)	(2,496)
Ending Balance	\$7,650	\$7,920

**NOTE 16 - JOINT VENTURES**

**A. General**

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

**B. Northern California Power Agency**

The City is a member of Northern California Power Agency (NCPA), a joint powers agency which operates under a joint powers agreement among fifteen public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and enter into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

During the year ended June 30, 1998, the City incurred expenses totaling \$18.295 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA Projects and Reserves, as computed by NCPA, is set forth below (in thousands):

	June 30, 1998
General Operating Reserve (including advances)	\$4,458
Undivided equity interest, at cost, in specific NCPA	
Power Projects:	
Geothermal Projects	NIL
Calaveras Hydroelectric Project	1,225
Geothermal Public Power Line	NIL
Northwest Power Purchase Contract	574
	\$6,257

The General Operating Reserve represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

***Geothermal Projects***

A purchased power agreement with NCPA obligated the City for 6.158% and 6.158%, respectively, of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Project Number 2 and Project Number 3.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 1998 is \$605.545 million. The City's participation in this project was 6.15%, or \$37.241 million.

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. Results of the continuing well analysis program indicate that the potential productive capacity of the geothermal steam reservoir is less than originally estimated. Therefore, NCPA has modified the operations of the Geothermal Project to reduce the average annual output from past levels. As a result, the per unit cost of energy generated by the projects will be higher than anticipated.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District are constructing a wastewater pipeline project that will greatly increase the amount of water available for reinjection.

***Calaveras Hydroelectric Project***

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February, 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.92% of this Project's debt service and operating costs. At June 30, 1998, the book value of this Project's plant, equipment and other assets was \$570.594 million, while its long term debt totaled \$564.193 million and other liabilities totaled \$6.401 million. The City's share of the Project's long term debt amounted to \$129.313 million at that date.

In April 1991, the City signed an agreement with the City of Roseville to sell a 6.52% portion of its capacity share of NCPA's Calaveras hydroelectric plant for a period of 14 years. Under the terms of the sale agreement, Roseville pays all the operation and maintenance costs associated with 6.52% of the plant. In addition, Roseville will also pay the city a portion of the net debt service obligations of the current long-term debt associated with the Hydroelectric Project No. 1. However, if Roseville defaults, the City is secondarily liable for the outstanding debt service obligations.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

***Geothermal Public Power Line***

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 11.074% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued \$16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 11.074% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 1998, the book value of this Project's plant, equipment and other assets was \$12.627 million, while its long term debt totaled \$12.627 million. The City's share of the Project's long term debt amounted to \$1.398 million at that date.

***Northwest Power Purchase Contract***

The City's participation with other NCPA members in a long-term contract for purchase of power from the Washington Water Power Company was approved in 1993. At that date the City did not have a share of the Project's long term debt. On February 1, 1997, the NCPA issued \$18,310,000 in Northwest Resource Revenue Bonds. The proceeds will be used to finance a portion of a payment to be made under the Northwest Power Purchase Contract and costs of issuance of the debt. Under the NCPA Agreement for Financing Electric Capacity, the City is obligated to pay 13.61% of this debt service. At June 30, 1998 the book value of this Project's plant, equipment and other assets was \$21.715 million, while its long term debt totaled \$16.272 million and other liabilities totaled \$5.443 million. The City's share of the Project's long-term debt amounted to \$2.214 million at that date.

***NCPA Financial Information***

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

**C. *Transmission Agency of Northern California (TANC)***

The City is a member of a joint powers agreement with 14 other entities in the Transmission Agency of Northern California (TANC). TANC's purpose is to provide electrical transmission or other facilities for the use of its members. While governed by its members, none of TANC's obligations are those of its members unless expressly assumed by them. The City is obligated to pay 4% of TANC's debt-service and operating costs.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

According to the 1985 Project Agreement with TANC for the development of the California-Oregon Transmission Project (COTP) and subsequent related project agreements, the City is obligated to pay its share of the project's costs, including debt service and is entitled to the use of a percentage of the project's transmission or transfer capacity. TANC has issued two series of Revenue Bonds and Commercial Paper Notes totaling \$453.701 million as of June 30, 1998. The City's share of this debt is \$18.148 million.

Construction of the COTP was complete as of June 30, 1993. The transmission line was energized March 24, 1993. Because funding of certain project participants' shares in the project was needed pending approval of their applications for participation, TANC issued \$93,781,238 of Commercial Paper debt backed by a Letter of Credit. The City's share of the Commercial Paper was \$2.455 million at June 30, 1998, which is included in the share of debt discussed above. Shares and obligations of the existing participants could increase pending final project subscription.

Because the investor owned utilities that had planned on being participants in the project did not receive Certificates of Public Convenience and Necessity from the California Public Utilities Commission, they were unable to participate. Accordingly, the remaining participants' percentage participation in the project increased substantially.

***TANC Financial Information***

TANC's financial statements can be obtained from TANC, P.O. Box 15129, Sacramento, CA 95851.

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

***Palo Alto Unified School District*** – The City leases the former Cubberley School site and eleven extended day care sites from the Palo Alto Unified School District (PAUSD). The lease is part of a larger agreement which includes a covenant not to develop certain properties owned by the PAUSD. The lease term expires in December 2004 with an option for an additional ten year term. The City's rent for the facilities are \$4.963 million per year plus insurance, repairs and maintenance work to be completed, which are not to exceed \$250 thousand per year. This lease is cancelable upon 90 days' written notice in the event funds are not appropriated by the City. In addition, the lease is contingent upon authorization by the Palo Alto electorate if it exceeds the City's Proposition 4 (Gann) appropriations limitation in any fiscal year. Lease expenditures for the year ended June 30, 1998 amounted to \$5.006 million.

Future minimum annual lease and covenant payments are as follows (in thousands):

<u>Year ending June 30:</u>	
1999	\$5,200
2000	5,382
2001	5,570
2002	5,764
Thereafter	<u>5,966</u>
Total	<u><u>\$27,882</u></u>

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)**

***Palo Alto Sanitation Company-*** The City entered into contract in 1987 with the Palo Alto Sanitation Company (PASCO) for services related to refuse collection, the curbside recycling program, operation of the Recycling Center, and emptying and maintenance of public trash receptacles. The contract is for an indefinite period unless either party gives a written cancellation notice which will become effective five years from the date of notification. The City is committed to pay PASCO a percentage of refuse revenue billed to the customers. That percentage, negotiated annually, was 30.43% for collection services and 95% for the bin rentals in fiscal 1997-98. During this period, the City made payments of approximately \$6.854 million for services rendered by PASCO.

***City of Palo Alto Regional Water Quality Control Plant-*** The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant which provides joint operations for the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement has a term of fifty years beginning from the original signing in October 1968, but may be terminated by any partner upon ten years' notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Enterprise Fund's property, plant and equipment balance at June 30, 1998. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the property, plant and equipment.

***Solid Waste Materials Recovery and Transfer Station (SMaRT Station)-*** On June 9, 1992, the City, along with the City of Mountain View, signed a Memorandum of Understanding (MOU) with the City of Sunnyvale (Sunnyvale) to participate in the construction and operation of the SMaRT station which will recover recyclable materials from the municipal solid waste delivered from participating cities. Per the MOU, the City has capacity share of 21.27% of this facility and will reimburse its proportionate capacity share of design, construction, and operation costs to Sunnyvale.

On December 1, 1992, the Sunnyvale Financing Authority issued \$24,160,000 revenue bonds to finance the design and construction costs. Even though these bonds are payable from and secured by the net revenues of Sunnyvale's Utilities Enterprise, the City is obligated to reimburse Sunnyvale 21.27% of total debt service payments related to these bonds. The City's portion of remaining principal balance for SMaRT revenue bonds as of June 30, 1998 is \$4.591 million. During the year ended June 30, 1998, the City paid \$397 thousand as its portion of current debt service.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)**

***Deregulation of Electric Industry-*** Effective January 1, 1998, Pacific Gas and Electric (PG&E), Southern California Edison and San Diego Gas & Electric Company turned their transmission systems over to the operational control of an Independent System Operator (ISO). The City currently receives its transmission service from PG&E under an agreement between PG&E and the Northern California Power Agency. Effective January 1, 1998, the City had the option of continuing its transmission service through its existing contracts or converting to transmission service offered by the ISO. This restructuring also introduced a Power Exchange through which the City will have the option of buying and selling electric power and energy.

***Litigation*** – The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

***Grant Programs*** – The City participates in Federal and State grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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## GENERAL FUND

The General Fund is used for all general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

CITY OF PALO ALTO  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 1998 AND 1997  
(In thousands of dollars)

	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>		
Cash and investments available for operations	\$38,781	\$31,760
Receivables, net:		
Accounts	6,072	5,061
Interest	879	817
Notes	689	703
Interfund receivable	514	203
Inventory of materials and supplies	<u>1,953</u>	<u>2,086</u>
Total Assets	<u>\$48,888</u>	<u>\$40,630</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$1,525	\$1,237
Accrued salaries and benefits	982	818
Deferred revenue	<u>477</u>	<u></u>
Total Liabilities	<u>2,984</u>	<u>2,055</u>
<b>FUND BALANCES</b>		
Reserved for:		
Encumbrances and reappropriations	5,036	3,706
Notes	689	703
Inventory of materials and supplies	1,953	2,086
Unreserved, designated for:		
Unrealized gain on investments	450	
Streets and sidewalks/school site projects	263	428
Budget stabilization	19,050	17,900
Emergencies	5,875	5,600
Infrastructure	<u>12,588</u>	<u>8,152</u>
Total Fund Balances	<u>45,904</u>	<u>38,575</u>
Total Liabilities and Fund Balances	<u>\$48,888</u>	<u>\$40,630</u>

CITY OF PALO ALTO  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997

(In thousands of dollars)

	1998		Variance Favorable (Unfavorable)	1997
	Budget	Actual		Actual
<b>REVENUES</b>				
Taxes:				
Property taxes	\$8,405	\$8,903	\$498	\$7,735
Sales taxes	19,700	20,011	311	18,277
Utility users' tax	5,485	5,780	295	5,509
Transient occupancy tax	5,700	5,846	146	5,107
Other taxes and fines	5,718	6,694	976	5,299
<b>Total taxes</b>	<b>45,008</b>	<b>47,234</b>	<b>2,226</b>	<b>41,927</b>
Fire protection and emergency communication services	4,534	4,507	(27)	4,193
From other agencies	171	667	496	171
Service fees and permits	8,826	8,984	158	9,087
Return on investment	3,100	3,759	659	2,739
Rental income	9,838	10,074	236	9,667
Other revenues	2,527	2,848	321	2,451
<b>Total Revenues</b>	<b>74,004</b>	<b>78,073</b>	<b>4,069</b>	<b>70,235</b>
<b>EXPENDITURES</b>				
Current:				
City Council	169	151	18	116
City Manager	1,283	988	295	918
City Attorney	1,725	1,380	345	1,162
City Clerk	855	813	42	600
City Auditor	509	418	91	426
Administrative Services	8,290	7,400	890	6,921
Human Resources	1,927	1,837	90	1,546
Public Works	9,202	8,172	1,030	7,339
Planning and Community Environment	5,499	4,832	667	4,320
Public Safety - Police	16,437	16,093	344	14,804
Public Safety - Fire	13,372	13,100	272	12,292
Community Services	15,797	15,050	747	13,972
School Site Operations	6,365	6,298	67	6,086
<b>Total Expenditures</b>	<b>81,430</b>	<b>76,532</b>	<b>4,898</b>	<b>70,502</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>(7,426)</u>	<u>1,541</u>	<u>8,967</u>	<u>(267)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	12,820	12,755	(65)	12,759
Operating transfers (out)	(7,799)	(7,822)	(23)	(6,469)
<b>Total Other Financing Sources (Uses)</b>	<u>5,021</u>	<u>4,933</u>	<u>(88)</u>	<u>6,290</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>				
	<u>(\$2,405)</u>	<u>6,474</u>	<u>\$8,879</u>	<u>6,023</u>
Fund balance at beginning of year		38,575		33,660
Residual equity transfer in		855		
Residual equity transfer (out)				(1,108)
<b>Fund balance at end of year</b>		<u>\$45,904</u>		<u>\$38,575</u>

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## **SPECIAL REVENUE FUNDS**

These funds account for the proceeds derived from specific revenue sources that are legally restricted to expenditures for specified purposes.

### **STREET IMPROVEMENT**

This fund accounts for revenues received from state gas tax, allocations must be spent on the construction and maintenance of the road network system of the City.

### **FEDERAL REVENUE**

This fund accounts for grant funds received under the Community Development Act of 1974 and HOME Investment Grant Programs, for activities approved and subject to federal regulations.

### **HOUSING IN-LIEU**

This fund accounts for revenues from commercial and residential developers to provide housing under the City's Below Market Rate program.

### **SPECIAL DISTRICTS**

This fund accounts for revenues from parking permits and for maintenance of various parking lots within the City's parking districts.

### **TRANSPORTATION MITIGATION**

This fund accounts for revenues from fees or contributions required for transportation mitigation issues encountered as a result of City development.

### **LOCAL LAW ENFORCEMENT**

This fund accounts for revenues received in support of City's law enforcement program.

### **DOWNTOWN PLANNED COMMUNITY**

This fund accounts for revenues received from contributions and fees that will be used to implement downtown improvements.

CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1997  
(In thousands of dollars)

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>	<u>Special Districts</u>	<u>Transportation Mitigation</u>
<b>ASSETS</b>					
Cash and investments available for operations	\$3,376	\$343	\$3,178	\$640	\$1,664
Receivables, net	1	75	50		
Interest receivable	45		45	9	23
Notes, net		1,426	4,971		
<b>Total Assets</b>	<u>\$3,422</u>	<u>\$1,844</u>	<u>\$8,244</u>	<u>\$649</u>	<u>\$1,687</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities		\$28	\$63	\$31	
Deferred revenue			129		
Interfund payables		514			
<b>Total Liabilities</b>		<u>542</u>	<u>192</u>	<u>31</u>	
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances and reappropriations	\$4,128	1,634	50		
Notes		1,426	4,971		
Unreserved, designated for:					
Special revenue projects			3,007	614	\$1,675
Unrealized gain on investments			24	4	12
Undesignated	(706)	(1,758)			
<b>Total Fund Balances</b>	<u>3,422</u>	<u>1,302</u>	<u>8,052</u>	<u>618</u>	<u>1,687</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$3,422</u>	<u>\$1,844</u>	<u>\$8,244</u>	<u>\$649</u>	<u>\$1,687</u>

<u>Local Law Enforcement</u>	<u>Downtown Planned Community</u>	<u>TOTALS</u>	
		<u>1998</u>	<u>1997</u>
\$198	\$88	\$9,487	\$7,230
		126	369
3	1	126	108
		6,397	6,424
<u>\$201</u>	<u>\$89</u>	<u>\$16,136</u>	<u>\$14,131</u>
\$15		\$137	\$372
		129	
		514	203
<u>15</u>		<u>780</u>	<u>575</u>
215		6,027	5,891
		6,397	6,424
	\$89	5,385	1,241
		40	
<u>(29)</u>		<u>(2,493)</u>	
<u>186</u>	<u>89</u>	<u>15,356</u>	<u>13,556</u>
<u>\$201</u>	<u>\$89</u>	<u>\$16,136</u>	<u>\$14,131</u>

CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>	<u>Special Districts</u>	<u>Transportation Mitigation</u>
<b>REVENUES</b>					
Other taxes and fines	\$1,134				
From other agencies:					
Community Development Block Grant		\$594			
Federal Urban Aid					
Local Law Enforcement Block Grant					
State of California					
HOME Grant					
Other revenue from other agencies	25				
TDA grant					
Total from other agencies	25	594			
Return on investment	215	9	\$174	\$40	\$132
Other:					
Great Western Bank - loan payoff		2			
Housing In-Lieu - residential			707		
Housing In-Lieu - commercial			1,362		
Traffic Mitigation - transportation					546
University Avenue Parking				504	
California Avenue Parking				118	
Sale of property					
Other fees			191		
Total other		2	2,260	622	546
Total Revenues	1,374	605	2,434	662	678
<b>EXPENDITURES FOR SPECIAL REVENUE PROJECTS</b>					
		451	334		
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>					
	1,374	154	2,100	662	678
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in					
Operating transfers (out)	(1,335)	(203)		(539)	(948)
Total Other Financing Sources (Uses)	(1,335)	(203)		(539)	(948)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>					
	39	(49)	2,100	123	(270)
Fund balances at beginning of year	3,383	1,351	5,952	495	1,957
Fund balances at end of year	\$3,422	\$1,302	\$8,052	\$618	\$1,687



<u>Local Law Enforcement</u>	<u>Downtown Planned Community</u>	<u>TOTALS</u>	
		<u>1998</u>	<u>1997</u>
		\$1,134	\$1,100
		594	814
			45
\$138		138	30
			252
		25	50
			109
			12
138		757	1,312
16	\$13	599	469
		2	(6)
		707	4
		1,362	304
		546	100
		504	879
		118	95
			82
	75	266	362
	75	3,505	1,820
154	88	5,995	4,701
138		923	1,245
16	88	5,072	3,456
3		3	391
	(250)	(3,275)	(2,724)
3	(250)	(3,272)	(2,333)
19	(162)	1,800	1,123
167	251	13,556	12,433
\$186	\$89	\$15,356	\$13,556

CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)

	<u>STREET IMPROVEMENT</u>			<u>FEDERAL REVENUE</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Other taxes and fines	\$1,125	\$1,134	\$9			
From other agencies:						
Community Development Block Grant				\$802	\$594	(\$208)
Local Law Enforcement Block Grant						
State of California						
Other revenue from other agencies		25	25			
Total from other agencies		25	25	802	594	(208)
Return on investment	183	215	32	15	9	(6)
Other:						
Great Western Bank - loan payoff				7	2	(5)
Housing In-Lieu - residential						
Housing In-Lieu - commercial						
Traffic Mitigation - transportation						
University Avenue Parking						
California Avenue Parking						
Other fees						
Total other				7	2	(5)
Total Revenues	1,308	1,374	66	824	605	(219)
EXPENDITURES FOR SPECIAL REVENUE PROJECTS				983	451	532
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,308	1,374	66	(159)	154	313
OTHER FINANCING SOURCES (USES)						
Operating transfers in						
Operating transfers (out)	(1,594)	(1,335)	259	(228)	(203)	25
Total Other Financing Sources (Uses)	(1,594)	(1,335)	259	(228)	(203)	25
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(286)	39	325	(387)	(49)	338
Fund balances at beginning of year		3,383			1,351	
Fund balances at end of year		\$3,422			\$1,302	

HOUSING IN-LIEU			SPECIAL DISTRICTS			TRANSPORTATION MITIGATION		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$117	\$174	\$57	\$26	\$40	\$14	\$114	\$132	\$18
7	707 1,362	707 1,355						
			443 84	504 118	61 34	40	546	506
58	191	133						
65	2,260	2,195	527	622	95	40	546	506
182	2,434	2,252	553	662	109	154	678	524
1,042	334	708						
(860)	2,100	2,960	553	662	109	154	678	524
			(594)	(539)	55	(948)	(948)	
			(594)	(539)	55	(948)	(948)	
(\$860)	2,100	\$2,960	(\$41)	123	\$164	(\$794)	(270)	\$524
	5,952			495			1,957	
	\$8,052			\$618			\$1,687	

(Continued)

CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)

	LOCAL LAW ENFORCEMENT			DOWNTOWN PLANNED COMMUNITY		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Other taxes and fines						
From other agencies:						
Community Development Block Grant						
Local Law Enforcement Block Grant	\$31		(\$31)			
State of California	138	\$138				
Other revenue from other agencies						
Total from other agencies	169	138	(31)			
Return on investment		16	\$16		\$13	\$13
Other:						
Great Western Bank - loan payoff						
Housing In-Lieu - residential						
Housing In-Lieu - commercial						
Traffic Mitigation - transportation						
University Avenue Parking						
California Avenue Parking						
Other fees					75	75
Total other					75	75
Total Revenues	169	154	(15)		88	88
<b>EXPENDITURES FOR SPECIAL REVENUE PROJECTS</b>	331	138	193			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(162)	16	178		88	88
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in	3	3				
Operating transfers (out)				(\$250)	(250)	
Total Other Financing Sources (Uses)	3	3		(250)	(250)	
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(\$159)</u>	19	<u>\$178</u>	<u>(\$250)</u>	(162)	<u>\$88</u>
Fund balances at beginning of year		167			251	
Fund balances at end of year		<u>\$186</u>			<u>\$89</u>	

TOTALS

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>\$1,125</u>	<u>\$1,134</u>	<u>\$9</u>
802	594	(208)
31		(31)
138	138	
	25	25
<u>971</u>	<u>757</u>	<u>(214)</u>
<u>455</u>	<u>599</u>	<u>144</u>
7	2	(5)
	707	707
7	1,362	1,355
40	546	506
443	504	61
84	118	34
58	266	208
<u>639</u>	<u>3,505</u>	<u>2,866</u>
3,190	5,995	2,805
<u>2,356</u>	<u>923</u>	<u>1,433</u>
<u>834</u>	<u>5,072</u>	<u>4,238</u>
3	3	
<u>(3,614)</u>	<u>(3,275)</u>	<u>339</u>
<u>(3,611)</u>	<u>(3,272)</u>	<u>339</u>
<u>(\$2,777)</u>	1,800	<u>\$4,577</u>
	<u>13,556</u>	
	<u>\$15,356</u>	

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## DEBT SERVICE FUNDS

Debt Service Funds are used to account for the payment of interest and principal on the general long-term debt of the City and its related entities.

### TERMAN LEASE

This fund accounts for revenues received to provide repayment of principal and interest on the long-term lease of the former Terman School with the Palo Alto Unified School District.

### GOLF COURSE

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with general obligation debt issued for the City's golf course.

### CIVIC CENTER CERTIFICATES OF PARTICIPATION

This fund accounts for revenues received from the General Fund to provide payment of the Civic Center Certificate of Participation as they become due.

### SPECIAL ASSESSMENT DEBT

This fund accumulate monies for payments of special assessment improvement bonds which are financed by assessments placed on property owners within the University Avenue and California Avenue Parking districts.

CITY OF PALO ALTO  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 1998

WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1997

(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	TOTALS	
					1998	1997
<b>ASSETS</b>						
Cash and investments available for operations	\$515			\$592	\$1,107	\$1,297
Restricted cash and investments		\$171	\$794	92	1,057	1,036
Special assessment receivable				5,195	5,195	5,685
Interest receivable	7	3	18		28	17
<b>Total Assets</b>	<u>\$522</u>	<u>\$174</u>	<u>\$812</u>	<u>\$5,879</u>	<u>\$7,387</u>	<u>\$8,035</u>
<b>LIABILITIES</b>						
Deferred revenue				\$5,195	\$5,195	\$5,685
<b>Total Liabilities</b>				<u>5,195</u>	<u>5,195</u>	<u>5,685</u>
<b>FUND BALANCES</b>						
Reserved for debt service	\$522	\$174	\$811	684	2,191	2,350
Unreserved, designated for unrealized gain on investments			1		1	
<b>Total Fund Balances</b>	<u>522</u>	<u>174</u>	<u>812</u>	<u>684</u>	<u>2,192</u>	<u>2,350</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$522</u>	<u>\$174</u>	<u>\$812</u>	<u>\$5,879</u>	<u>\$7,387</u>	<u>\$8,035</u>



CITY OF PALO ALTO  
DEBT SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	TOTALS	
					1998	1997
<b>REVENUES</b>						
Special assessments				\$857	\$857	\$858
From other agencies	\$250				250	246
Return on investment	36	\$9	\$48		93	91
<b>Total Revenues</b>	<b>286</b>	<b>9</b>	<b>48</b>	<b>857</b>	<b>1,200</b>	<b>1,195</b>
<b>EXPENDITURES</b>						
Debt service:						
Principal retirement	395	100	460	450	1,405	1,355
Interest and fiscal charges	88	42	356	402	888	964
<b>Total Expenditures</b>	<b>483</b>	<b>142</b>	<b>816</b>	<b>852</b>	<b>2,293</b>	<b>2,319</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(197)</b>	<b>(133)</b>	<b>(768)</b>	<b>5</b>	<b>(1,093)</b>	<b>(1,124)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in		141	794		935	924
<b>Total Other Financing Sources (Uses)</b>		<b>141</b>	<b>794</b>		<b>935</b>	<b>924</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(197)</b>	<b>8</b>	<b>26</b>	<b>5</b>	<b>(158)</b>	<b>(200)</b>
Fund balances at beginning of year, as restated	719	166	786	679	2,350	2,550
Fund balances at end of year	\$522	\$174	\$812	\$684	\$2,192	\$2,350

CITY OF PALO ALTO  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)

	TERMAN LEASE			GOLF COURSE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Special assessments						
From other agencies	\$246	\$250	\$4			
Return on investment	35	36	1	\$4	\$9	\$5
<b>Total Revenues</b>	<b>281</b>	<b>286</b>	<b>5</b>	<b>4</b>	<b>9</b>	<b>5</b>
<b>EXPENDITURES</b>						
Debt Service						
Principal retirement	395	395		100	100	
Interest and fiscal charges	107	88	19	53	42	11
<b>Total Expenditures</b>	<b>502</b>	<b>483</b>	<b>19</b>	<b>153</b>	<b>142</b>	<b>11</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(221)</b>	<b>(197)</b>	<b>24</b>	<b>(149)</b>	<b>(133)</b>	<b>16</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in				134	141	7
<b>Total Other Financing Sources (Uses)</b>				<b>134</b>	<b>141</b>	<b>7</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(221)</b>	<b>(197)</b>	<b>\$24</b>	<b>(\$15)</b>	<b>8</b>	<b>\$23</b>
Fund balances at beginning of year, as restated		719			166	
Fund balances at end of year		<u>\$522</u>			<u>\$174</u>	

CIVIC CENTER			SPECIAL ASSESSMENT DEBT			TOTALS		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
			\$849	\$857	\$8	\$849	\$857	\$8
						246	250	4
\$20	\$48	\$28				59	93	34
20	48	28	849	857	8	1,154	1,200	46
460	460		450	450		1,405	1,405	
356	356		405	402	3	921	888	33
816	816		855	852	3	2,326	2,293	33
(796)	(768)	28	(6)	5	11	(1,172)	(1,093)	79
778	794	16				912	935	23
778	794	16				912	935	23
<u>(\$18)</u>	26	<u>\$44</u>	<u>(\$6)</u>	5	<u>\$11</u>	<u>(\$260)</u>	(158)	<u>\$102</u>
	786			679			2,350	
	<u>\$812</u>			<u>\$684</u>			<u>\$2,192</u>	

## **CAPITAL PROJECTS FUND**

The Capital Projects Fund is utilized to account for resources used for the acquisition and construction of capital facilities by the City, with the exception of those assets financed by proprietary funds.

CITY OF PALO ALTO  
 CAPITAL PROJECTS FUND  
 COMPARATIVE BALANCE SHEETS  
 JUNE 30, 1998 AND 1997  
 (In thousands of dollars)

	1998	1997
<b>ASSETS</b>		
Cash and investments available for operations	\$15,162	\$11,554
Accounts receivable	485	485
Total Assets	\$15,162	\$12,039
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$527	\$914
Total Liabilities	527	914
<b>FUND BALANCE</b>		
Reserved for:		
Reappropriations and encumbrances	20,626	11,871
Unreserved:		
Undesignated	(5,991)	(746)
Total Fund Balance	14,635	11,125
Total Liabilities and Fund Balance	\$15,162	\$12,039

CITY OF PALO ALTO  
 CAPITAL PROJECTS FUND  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEARS ENDED JUNE 30, 1998 AND 1997  
 (In thousands of dollars)

	<u>1998</u>	<u>1997</u>
<b>REVENUES</b>		
From other agencies:		
Peninsula Community Foundation	\$50	
Stanford University	8	\$10
Santa Clara County		480
Palo Alto Unified School District		<u>20</u>
Total from other agencies	<u>58</u>	<u>510</u>
Return on Investment		
Federal grants		55
Community Development Block Grant		45
Other revenues	<u>1</u>	<u>9</u>
Total Revenues	59	619
<b>EXPENDITURES</b>		
Capital outlay	<u>5,826</u>	<u>6,336</u>
Total Expenditures	<u>5,826</u>	<u>6,336</u>
<b>DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES</b>		
	<u>(5,767)</u>	<u>(5,717)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating transfers in	10,132	7,562
Operating transfers (out)		<u>(12)</u>
Total Other Financing Sources (Uses)	<u>10,132</u>	<u>7,550</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>		
	4,365	1,833
Fund balance at beginning of year	11,125	8,184
Residual equity transfer in		1,108
Residual equity transfer (out)	<u>(855)</u>	
Fund balance at end of year	<u>\$14,635</u>	<u>\$11,125</u>

## ENTERPRISE FUNDS

Enterprise funds account for City operations which are financed and operated in a manner similar to private enterprise. Costs of providing service to the public are covered by user charges, grant funds, and impact fees.

### WATER SERVICES

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### ELECTRIC SERVICES

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### GAS SERVICES

This fund accounts for all financial transactions relating to the City's Gas service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### WASTEWATER COLLECTION

This fund accounts for all financial transactions relating to the City's Wastewater Collection. Collections are on a user charge basis to residents and business owners located in Palo Alto.

### WASTEWATER TREATMENT

This fund accounts for all financial transactions relating to the City's Wastewater Treatment. Services are on a user charge basis to residents and business owners located in Palo Alto.

### REFUSE SERVICES

This fund accounts for all financial transactions relating to the City's Refuse service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### STORM DRAINAGE SERVICES

This fund accounts for all financial transactions relating to the City's Storm Drain service. Services are on a user charge basis to residents and business owners located in Palo Alto.

CITY OF PALO ALTO  
ENTERPRISE FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 1998

WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1997

(In thousands of dollars)

ASSETS	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment
<b>Current Assets:</b>					
Cash and investments:					
Available for operations	\$10,917	\$86,189	\$18,894	\$15,002	\$8,377
Restricted					
Accounts receivable, net	1,365	8,006	1,251	1,196	577
Interest receivable	154	1,217	266	212	118
Prepaid items		42			
<b>Total Current Assets</b>	<b>12,436</b>	<b>95,454</b>	<b>20,411</b>	<b>16,410</b>	<b>9,072</b>
<b>Noncurrent Assets:</b>					
Property, plant and equipment, net	29,347	95,538	31,703	26,649	26,278
<b>Total Noncurrent Assets</b>	<b>29,347</b>	<b>95,538</b>	<b>31,703</b>	<b>26,649</b>	<b>26,278</b>
<b>Total Assets</b>	<b>\$41,783</b>	<b>\$190,992</b>	<b>\$52,114</b>	<b>\$43,059</b>	<b>\$35,350</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued liabilities	\$873	\$3,959	\$825	\$66	\$500
Accrued salaries and benefits	40	159	64	31	79
Current portion of revenue bonds				187	408
Accrued landfill closure liability					
<b>Total Current Liabilities</b>	<b>913</b>	<b>4,118</b>	<b>889</b>	<b>284</b>	<b>987</b>
<b>Long-term liabilities:</b>					
Revenue bonds, net of unamortized discount				1,668	3,628
<b>Total Liabilities</b>	<b>913</b>	<b>4,118</b>	<b>889</b>	<b>1,952</b>	<b>4,615</b>
<b>FUND EQUITY</b>					
Contributed capital	7,751	17,138	3,292	9,030	21,382
Retained earnings	33,119	169,736	47,933	32,077	9,353
<b>Total Fund Equity</b>	<b>40,870</b>	<b>186,874</b>	<b>51,225</b>	<b>41,107</b>	<b>30,735</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$41,783</b>	<b>\$190,992</b>	<b>\$52,114</b>	<b>\$43,059</b>	<b>\$35,350</b>



Refuse	Storm Drainage	TOTALS	
		1998	1997
\$15,265	\$773	\$155,417	\$134,336
	2,755	2,755	4,240
1,764	192	14,351	13,114
216	11	2,194	1,984
		42	187
<u>17,245</u>	<u>3,731</u>	<u>174,759</u>	<u>153,861</u>
<u>4,851</u>	<u>12,301</u>	<u>226,667</u>	<u>216,983</u>
<u>4,851</u>	<u>12,301</u>	<u>226,667</u>	<u>216,983</u>
<u>\$22,096</u>	<u>\$16,032</u>	<u>\$401,426</u>	<u>\$370,844</u>
\$1,055	\$235	\$7,513	\$4,709
35	12	420	335
	300	895	840
<u>7,238</u>		<u>7,238</u>	<u>6,932</u>
<u>8,328</u>	<u>547</u>	<u>16,066</u>	<u>12,816</u>
	<u>11,724</u>	<u>17,020</u>	<u>17,884</u>
<u>8,328</u>	<u>12,271</u>	<u>33,086</u>	<u>30,700</u>
		58,593	58,593
<u>13,768</u>	<u>3,761</u>	<u>309,747</u>	<u>281,551</u>
<u>13,768</u>	<u>3,761</u>	<u>368,340</u>	<u>340,144</u>
<u>\$22,096</u>	<u>\$16,032</u>	<u>\$401,426</u>	<u>\$370,844</u>

CITY OF PALO ALTO  
ENTERPRISE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment
<b>OPERATING REVENUES</b>					
Sales of utilities:					
Customers	\$11,411	\$64,650	\$16,827	\$8,655	
City departments	532	1,655	347	109	\$4,158
Wholesale		10,389	1,056		
Wastewater treatment					6,936
Service connection charges and miscellaneous	180	309	227	54	
Other operating revenues	132	4,139	433	667	227
<b>Total Operating Revenues</b>	<b>12,255</b>	<b>81,142</b>	<b>18,890</b>	<b>9,485</b>	<b>11,321</b>
<b>OPERATING EXPENSES</b>					
Purchase of utilities	4,283	32,771	9,712	4,158	
Administration and general	1,222	2,631	1,438	358	962
Engineering (operating)	41	347	62	34	1,401
Resource management	312	2,783	523		
Operations and maintenance	1,578	5,725	1,537	996	7,151
Rent	669	2,054	170	93	
Depreciation and amortization	694	4,186	1,060	870	1,522
<b>Total Operating Expenses</b>	<b>8,799</b>	<b>50,497</b>	<b>14,502</b>	<b>6,509</b>	<b>11,036</b>
<b>Operating Income</b>	<b>3,456</b>	<b>30,645</b>	<b>4,388</b>	<b>2,976</b>	<b>285</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Return on investment	774	5,409	1,252	965	549
Interest (expense)				(137)	(298)
Joint venture debt service		(11,036)			
Loss on disposal of fixed assets	(27)	(69)	(31)	(13)	(1)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>747</b>	<b>(5,696)</b>	<b>1,221</b>	<b>815</b>	<b>250</b>
<b>Income Before Operating Transfers</b>	<b>4,203</b>	<b>24,949</b>	<b>5,609</b>	<b>3,791</b>	<b>535</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in		447			
Operating transfers (out)	(2,313)	(7,810)	(2,850)	(118)	(26)
<b>Net Income</b>	<b>1,890</b>	<b>17,586</b>	<b>2,759</b>	<b>3,673</b>	<b>509</b>
Retained earnings at beginning of year	31,229	152,150	45,174	28,404	8,844
Retained earnings at end of year	<u>\$33,119</u>	<u>\$169,736</u>	<u>\$47,933</u>	<u>\$32,077</u>	<u>\$9,353</u>

Refuse	Storm Drainage	TOTALS	
		1998	1997
\$18,257	\$1,977	\$121,777	\$117,677
423	108	7,332	7,072
		11,445	2,505
		6,936	6,735
		770	916
2,483	4	8,085	11,852
<u>21,163</u>	<u>2,089</u>	<u>156,345</u>	<u>146,757</u>
6,854		57,778	53,053
1,000	342	7,953	7,202
453	301	2,639	2,185
		3,618	3,099
7,482	761	25,230	23,301
4,289		7,275	6,987
185	229	8,746	8,257
<u>20,263</u>	<u>1,633</u>	<u>113,239</u>	<u>104,084</u>
<u>900</u>	<u>456</u>	<u>43,106</u>	<u>42,673</u>
989	64	10,002	7,663
	(280)	(715)	(754)
(397)		(11,433)	(9,034)
		(141)	(560)
<u>592</u>	<u>(216)</u>	<u>(2,287)</u>	<u>(2,685)</u>
1,492	240	40,819	39,988
172		619	213
(89)	(36)	(13,242)	(12,519)
1,575	204	28,196	27,682
<u>12,193</u>	<u>3,557</u>	<u>281,551</u>	<u>253,869</u>
<u>\$13,768</u>	<u>\$3,761</u>	<u>\$309,747</u>	<u>\$281,551</u>

CITY OF PALO ALTO  
ENTERPRISE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	<u>Water</u>	<u>Electric</u>	<u>Gas</u>	<u>Wastewater Collection</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$3,456	\$30,645	\$4,388	\$2,976
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation and amortization	694	4,186	1,060	870
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	186	(1,175)	(230)	(1)
(Increase) decrease in interest receivable	(4)	(176)	9	(12)
(Increase) decrease in prepaid items		(42)		
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	109	2,628	255	(457)
Increase in accrued landfill closure				
Net Cash From Operating Activities	<u>4,441</u>	<u>36,066</u>	<u>5,482</u>	<u>3,376</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in		447		
Operating transfers (out)	<u>(2,313)</u>	<u>(7,810)</u>	<u>(2,850)</u>	<u>(118)</u>
Net Cash From Noncapital Financing Activities	<u>(2,313)</u>	<u>(7,363)</u>	<u>(2,850)</u>	<u>(118)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of fixed assets	(2,157)	(7,357)	(3,609)	(2,590)
Principal paid on long term debt				(175)
Interest paid on long term debt		<u>(11,036)</u>		<u>(137)</u>
Cash Flows From Capital Financing Activities	<u>(2,157)</u>	<u>(18,393)</u>	<u>(3,609)</u>	<u>(2,902)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on pooled investments	<u>774</u>	<u>5,409</u>	<u>1,252</u>	<u>965</u>
Net Cash From Investing Activities	<u>774</u>	<u>5,409</u>	<u>1,252</u>	<u>965</u>
Net Cash Flows	745	15,719	275	1,321
Cash and cash equivalents at beginning of year	<u>10,172</u>	<u>70,470</u>	<u>18,619</u>	<u>13,681</u>
Cash and cash equivalents at end of year	<u>\$10,917</u>	<u>\$86,189</u>	<u>\$18,894</u>	<u>\$15,002</u>

Wastewater Treatment	Refuse	Storm Drainage	TOTALS	
			1998	1997
\$285	\$900	\$456	\$43,106	\$42,673
1,522	185	229	8,746	8,257
(65)	48		(1,237)	225
(9)	(26)	8	(210)	(78)
	187		145	(23)
220	204	(70)	2,889	(521)
	306		306	247
<u>1,953</u>	<u>1,804</u>	<u>623</u>	<u>53,745</u>	<u>50,780</u>
	172		619	213
(26)	(89)	(36)	(13,242)	(12,519)
(26)	83	(36)	(12,623)	(12,306)
(675)	(81)	(2,071)	(18,540)	(25,188)
(380)		(285)	(840)	(801)
(298)	(397)	(280)	(12,148)	(9,788)
<u>(1,353)</u>	<u>(478)</u>	<u>(2,636)</u>	<u>(31,528)</u>	<u>(35,777)</u>
549	989	64	10,002	7,663
549	989	64	10,002	7,663
1,123	2,398	(1,985)	19,596	10,360
7,254	12,867	5,513	138,576	128,216
<u>\$8,377</u>	<u>\$15,265</u>	<u>\$3,528</u>	<u>\$158,172</u>	<u>\$138,576</u>

## **INTERNAL SERVICE FUNDS**

Internal Service Funds are used to account for special activities and services performed by a designated City department for other departments on a cost reimbursement basis.

### **VEHICLE REPLACEMENT AND MAINTENANCE**

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is an accumulation of resources.

### **COMPUTER EQUIPMENT REPLACEMENT**

This fund accounts for the maintenance and replacement of computer equipment used by all City departments. The source of revenue is an accumulation of resources.

### **PRINTING AND MAILING SERVICES**

This fund accounts for central duplicating, printing and mailing services provided to all City departments. Source of revenue for this fund is on reimbursement of costs for services and supplies purchased by other departments.

### **GENERAL BENEFITS AND INSURANCE**

This fund accounts for the administration of compensated absences and health benefits, and the City's self-insured workers' compensation and general liability programs.

CITY OF PALO ALTO  
INTERNAL SERVICE FUNDS  
COMBINING BALANCE SHEETS

JUNE 30, 1998

WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1997

(In thousands of dollars)

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					1998	1997
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and investments available for operations	\$5,219	\$2,382	\$443	\$23,726	\$31,770	\$30,898
Accounts receivable, net	4			22	26	18
Interest receivable	74	34	7	263	378	380
Prepaid items				180	180	
Inventory of materials and supplies	217				217	222
<b>Total Current Assets</b>	<b>5,514</b>	<b>2,416</b>	<b>450</b>	<b>24,191</b>	<b>32,571</b>	<b>31,518</b>
Property, plant and equipment, net	7,429	197	48		7,674	7,141
<b>Total Assets</b>	<b>\$12,943</b>	<b>\$2,613</b>	<b>\$498</b>	<b>\$24,191</b>	<b>\$40,245</b>	<b>\$38,659</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued liabilities	\$129	\$93	\$10	\$111	\$343	\$120
Accrued salaries and benefits	16		4	1,401	1,421	1,523
Accrued compensated absences - current				6,253	6,253	5,595
Accrued self insurance - current				2,887	2,887	2,313
<b>Total Current Liabilities</b>	<b>145</b>	<b>93</b>	<b>14</b>	<b>10,652</b>	<b>10,904</b>	<b>9,551</b>
<b>Long-term Liabilities</b>						
Accrued compensated absences				3,424	3,424	3,281
Accrued self insurance				4,763	4,763	5,607
<b>Total Long-term Liabilities</b>				<b>8,187</b>	<b>8,187</b>	<b>8,888</b>
<b>Total Liabilities</b>	<b>145</b>	<b>93</b>	<b>14</b>	<b>18,839</b>	<b>19,091</b>	<b>18,439</b>
<b>FUND EQUITY</b>						
Contributed capital	3,944	2,000	196		6,140	5,997
Retained earnings	8,854	520	288	5,352	15,014	14,223
<b>Total Fund Equity</b>	<b>12,798</b>	<b>2,520</b>	<b>484</b>	<b>5,352</b>	<b>21,154</b>	<b>20,220</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$12,943</b>	<b>\$2,613</b>	<b>\$498</b>	<b>\$24,191</b>	<b>\$40,245</b>	<b>\$38,659</b>

CITY OF PALO ALTO  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					1998	1997
<b>OPERATING REVENUES</b>						
Charges for services	\$3,676	\$931	\$749	\$27,365	\$32,721	\$29,615
<b>OPERATING EXPENSES</b>						
Administration and general	499	528	797	697	2,521	2,080
Operations and maintenance	1,726				1,726	1,836
Depreciation and amortization	1,648	25	28		1,701	1,575
Claim payments and change in estimated self-insured liability				3,030	3,030	2,583
Compensated absences and other benefits				25,349	25,349	23,884
<b>Total Operating Expenses</b>	<b>3,873</b>	<b>553</b>	<b>825</b>	<b>29,076</b>	<b>34,327</b>	<b>31,958</b>
<b>Total Operating Income (Loss)</b>	<b>(197)</b>	<b>378</b>	<b>(76)</b>	<b>(1,711)</b>	<b>(1,606)</b>	<b>(2,343)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Return on investment	357	142	27	1,257	1,783	1,599
Gain on disposal of fixed assets	109				109	115
Other nonoperating revenues	41		11	558	610	794
<b>Total Nonoperating Revenues</b>	<b>507</b>	<b>142</b>	<b>38</b>	<b>1,815</b>	<b>2,502</b>	<b>2,508</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>310</b>	<b>520</b>	<b>(38)</b>	<b>104</b>	<b>896</b>	<b>165</b>
Operating transfers (out)	(105)				(105)	(125)
<b>Net Income (Loss)</b>	<b>205</b>	<b>520</b>	<b>(38)</b>	<b>104</b>	<b>791</b>	<b>40</b>
Retained earnings at beginning of year	8,649		326	5,248	14,223	14,183
<b>Retained earnings at end of year</b>	<b>\$8,854</b>	<b>\$520</b>	<b>\$288</b>	<b>\$5,352</b>	<b>\$15,014</b>	<b>\$14,223</b>



CITY OF PALO ALTO  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating income (loss)	(\$197)	\$378	(\$76)	(\$1,711)	(\$1,606)	(\$2,343)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:						
Depreciation and amortization	1,648	25	28		1,701	1,575
Other	41		11	558	610	909
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable				(8)	(8)	(7)
Decrease (increase) in interest receivable	31	(34)		5	2	(83)
Decrease (increase) in prepaid items				(180)	(180)	
Increase in inventory	5				5	(35)
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	74	93	1	(47)	121	(514)
Decrease in accrued compensated absences				801	801	(55)
Increase in accrued self-insurance				(270)	(270)	87
Net Cash From Operating Activities	1,602	462	(36)	(852)	1,176	(466)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Operating transfer (out)	(105)				(105)	(125)
Net Cash From Noncapital Financing Activities	(105)				(105)	(125)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>						
Acquisition and construction of fixed assets	(1,881)	(222)			(2,103)	(1,975)
Proceeds from sale of fixed assets	121				121	
Residual equity transfer in		2,000			2,000	
Residual equity transfer (out)	(2,000)				(2,000)	
Net Cash From Capital Financing Activities	(3,760)	1,778			(1,982)	(1,975)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest and dividends on pooled investments	357	142	27	1,257	1,783	1,599
Net Cash From Investing Activities	357	142	27	1,257	1,783	1,599
Net Cash Flows	(1,906)	2,382	(9)	405	872	(967)
Cash, cash equivalents and investments at beginning of year	7,125		452	23,321	30,898	31,865
Cash, cash equivalents and investments at end of year	\$5,219	\$2,382	\$443	\$23,726	\$31,770	\$30,898
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Increase in contributed capital	\$143				\$143	\$451

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## FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. The funds are operated to carry out the specific actions required by the trust agreements, ordinances and other governing regulations.

**Expendable Trust Funds** account for assets held by the City in a trustee capacity under formal trust agreements.

### COMMUNITY PROJECTS DONATIONS

This fund accounts for community projects on behalf of the City residents. The source of revenues are donations.

### ASSETS SEIZURE

This fund accounts for seized property and funds associated with drug trafficking. Under California Assembly Bill No. 4162, the monies are released to the City for specific expenditures related to law enforcement activities.

### CHILD CARE

This fund accounts for the Child Care Master Plan through the efforts of the Child Care Task Force.

### RETIREE HEALTH BENEFIT

This fund accounts for retiree health benefits up to the amount that actual benefits exceed one and one-half of the City's gross payroll costs in any fiscal period.

**Agency Funds** are custodial in nature and do not involve measurement of results of operations. The City maintains two agency funds.

### CALIFORNIA AVENUE PARKING ASSESSMENT DISTRICT

This fund accounts for receipts and disbursements associated with the 1993 Parking District No. 92-13 Assessment Bonds.

### DEFERRED COMPENSATION

This fund accounts for assets and liabilities of the City sponsored deferred compensation plan established under Internal Revenue Code section 457.

CITY OF PALO ALTO  
 TRUST AND AGENCY FUNDS  
 COMBINING BALANCE SHEETS  
 JUNE 30, 1998  
 WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1997  
 (In thousands of dollars)

	EXPENDABLE TRUST FUNDS			
	Community Projects Donation	Assets Seizure	Child Care	Retiree Health Benefit
ASSETS				
Cash and investments available for operations	\$164	\$61	\$301	\$7,525
Restricted cash and investments		1		
Deferred compensation plan investments				
Interest receivable	3	1	4	106
Total Assets	\$167	\$63	\$305	\$7,631
LIABILITIES				
Accounts payable and accrued liabilities		\$1		
Deferred compensation payable				
Due to bondholders				
Total Liabilities		1		
FUND BALANCE				
Unreserved, designated for unrealized gain on investment	\$1		\$2	\$56
Unreserved, undesignated	166	62	303	7,575
Total Fund Balances	167	62	305	7,631
Total Liabilities and Equity	\$167	\$63	\$305	\$7,631

<u>AGENCY FUNDS</u>		<u>TOTALS</u>	
<u>California Avenue Parking Assessment District</u>	<u>Deferred Compensation</u>	<u>1998</u>	<u>1997</u>
\$400		\$8,451	\$7,969
		1	1
	\$58,612	58,612	48,259
		114	112
<u>\$400</u>	<u>\$58,612</u>	<u>\$67,178</u>	<u>\$56,341</u>
		\$1	\$1
	\$58,612	58,612	48,259
<u>\$400</u>		<u>400</u>	<u>437</u>
<u>400</u>	<u>58,612</u>	<u>59,013</u>	<u>48,697</u>
		59	
		8,106	7,644
		8,165	7,644
<u>\$400</u>	<u>\$58,612</u>	<u>\$67,178</u>	<u>\$56,341</u>

CITY OF PALO ALTO  
EXPENDABLE TRUST FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)

	Community Projects Donations	Assets Seizure	Child Care	Retiree Health Benefit	TOTALS	
					1998	1997
<b>REVENUES</b>						
Return on Investment	\$12	\$3	\$19	\$496	\$530	\$437
Other	23	10			33	13
Total Revenues	35	13	19	496	563	450
<b>EXPENDITURES</b>						
Public Safety - Police	42				42	31
Total Expenditures	42				42	31
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	(7)	13	19	496	521	419
Fund balances beginning of year	174	49	286	7,135	7,644	7,225
Fund balances end of year	\$167	\$62	\$305	\$7,631	\$8,165	\$7,644

CITY OF PALO ALTO  
 AGENCY FUNDS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
 (In thousands of dollars)

	Balance June 30, 1997 (As Restated)	Additions	Reductions	Balance June 30, 1998
<u>California Avenue Parking Assessment District</u>				
ASSETS				
Cash and investments available for operations	\$437	\$121	\$158	\$400
LIABILITIES				
Due to bondholders	\$437	\$121	\$158	\$400
<u>Deferred Compensation</u>				
ASSETS				
Deferred compensation plan investments:				
The Hartford	\$29,699	\$6,376	\$1,984	\$34,091
ICMA	17,794	6,367	370	23,791
Great Western Savings	766	46	82	730
Total assets	\$48,259	\$12,789	\$2,436	\$58,612
LIABILITIES				
Deferred compensation payable	\$48,259	\$12,789	\$2,436	\$58,612
<u>Total Agency Funds</u>				
ASSETS				
Cash and investments available for operations	\$437	\$121	\$158	\$400
Deferred compensation plan investments	48,259	12,789	2,436	58,612
Total assets	\$48,696	\$12,910	\$2,594	\$59,012
LIABILITIES				
Due to bondholders	\$437	\$121	\$158	\$400
Deferred compensation plan investments	48,259	12,789	2,436	58,612
Total liabilities	\$48,696	\$12,910	\$2,594	\$59,012

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CITY OF PALO ALTO  
 SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
 BY SOURCE  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
 (In thousands of dollars)

	<u>Balance June 30, 1997</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1998</u>
<b>General Fixed Assets:</b>				
Land and improvements	\$50,579	\$981	(\$286)	\$51,274
Buildings and structures	48,716	405		49,121
Equipment	<u>4,872</u>	<u>428</u>		<u>5,300</u>
Total General Fixed Assets	<u><u>\$104,167</u></u>	<u><u>\$1,814</u></u>	<u><u>(\$286)</u></u>	<u><u>\$105,695</u></u>
<b>Investments in General Fixed Assets by Source:</b>				
Balances prior to July 1, 1994	\$97,626			\$97,626
General Fund	227	\$64	(\$286)	5
Capital Projects Fund	<u>6,314</u>	<u>1,750</u>		<u>8,064</u>
Total Investment in General Fixed Assets	<u><u>\$104,167</u></u>	<u><u>\$1,814</u></u>	<u><u>(\$286)</u></u>	<u><u>\$105,695</u></u>

CITY OF PALO ALTO  
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
BY FUNCTION AND ACTIVITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)

FUNCTION AND ACTIVITY	Balance June 30, 1997	Additions	Retirements	Balance June 30, 1998
<b>ADMINISTRATION:</b>				
City Clerk and Council	\$55			\$55
City Manager	11			11
Administrative Services	1,377	\$76		1,453
General Government	16,961	612		17,573
<b>Total administration</b>	<b>18,404</b>	<b>688</b>		<b>19,092</b>
<b>PUBLIC SAFETY:</b>				
Police	25	41		66
Fire	5,724	12		5,736
Communications	603			603
Animal Services	400			400
<b>Total public safety</b>	<b>6,752</b>	<b>53</b>		<b>6,805</b>
<b>LIBRARIES</b>	<b>3,354</b>			<b>3,354</b>
<b>PARKS, RECREATION AND CULTURE</b>	<b>45,876</b>	<b>1,073</b>		<b>46,949</b>
<b>PARKING FACILITIES</b>	<b>11,687</b>			<b>11,687</b>
<b>OPEN SPACE</b>	<b>17,808</b>			<b>17,808</b>
<b>HOUSING</b>	<b>286</b>		<b>(\$286)</b>	
<b>Total General Fixed Assets</b>	<b>\$104,167</b>	<b>\$1,814</b>	<b>(\$286)</b>	<b>\$105,695</b>

CITY OF PALO ALTO  
SCHEDULE OF GENERAL FIXED ASSETS  
BY FUNCTION AND ACTIVITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
WITH COMPARATIVE TOTALS FOR JUNE 30, 1997  
(In thousands of dollars)

FUNCTION AND ACTIVITY	Land and Improvements	Buildings and Structures	Equipment	TOTALS	
				1998	1997
<b>ADMINISTRATION:</b>					
City Clerk and Council			\$55	\$55	\$55
City Manager			11	11	11
Administrative Services			1,453	1,453	1,377
General Government	\$1,782	\$14,286	1,505	17,573	16,961
<b>Total administration</b>	<b>1,782</b>	<b>14,286</b>	<b>3,024</b>	<b>19,092</b>	<b>18,404</b>
<b>PUBLIC SAFETY:</b>					
Police			66	66	25
Fire	392	5,188	156	5,736	5,724
Communications			603	603	603
Animal Services	37	330	33	400	400
<b>Total public safety</b>	<b>429</b>	<b>5,518</b>	<b>858</b>	<b>6,805</b>	<b>6,752</b>
<b>LIBRARIES</b>	<b>245</b>	<b>2,881</b>	<b>228</b>	<b>3,354</b>	<b>3,354</b>
<b>PARKS, RECREATION AND CULTURE</b>	<b>27,998</b>	<b>17,761</b>	<b>1,190</b>	<b>46,949</b>	<b>45,876</b>
<b>PARKING FACILITIES</b>	<b>3,012</b>	<b>8,675</b>		<b>11,687</b>	<b>11,687</b>
<b>OPEN SPACE</b>	<b>17,808</b>			<b>17,808</b>	<b>17,808</b>
<b>HOUSING</b>					<b>286</b>
<b>Total General Fixed Assets</b>	<b>\$51,274</b>	<b>\$49,121</b>	<b>\$5,300</b>	<b>\$105,695</b>	<b>\$104,167</b>

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## STATISTICAL SECTION

The statistical section contains comprehensive statistical data which relates to physical, economic, social and political characteristics of the City. It is intended to provide users with a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section.

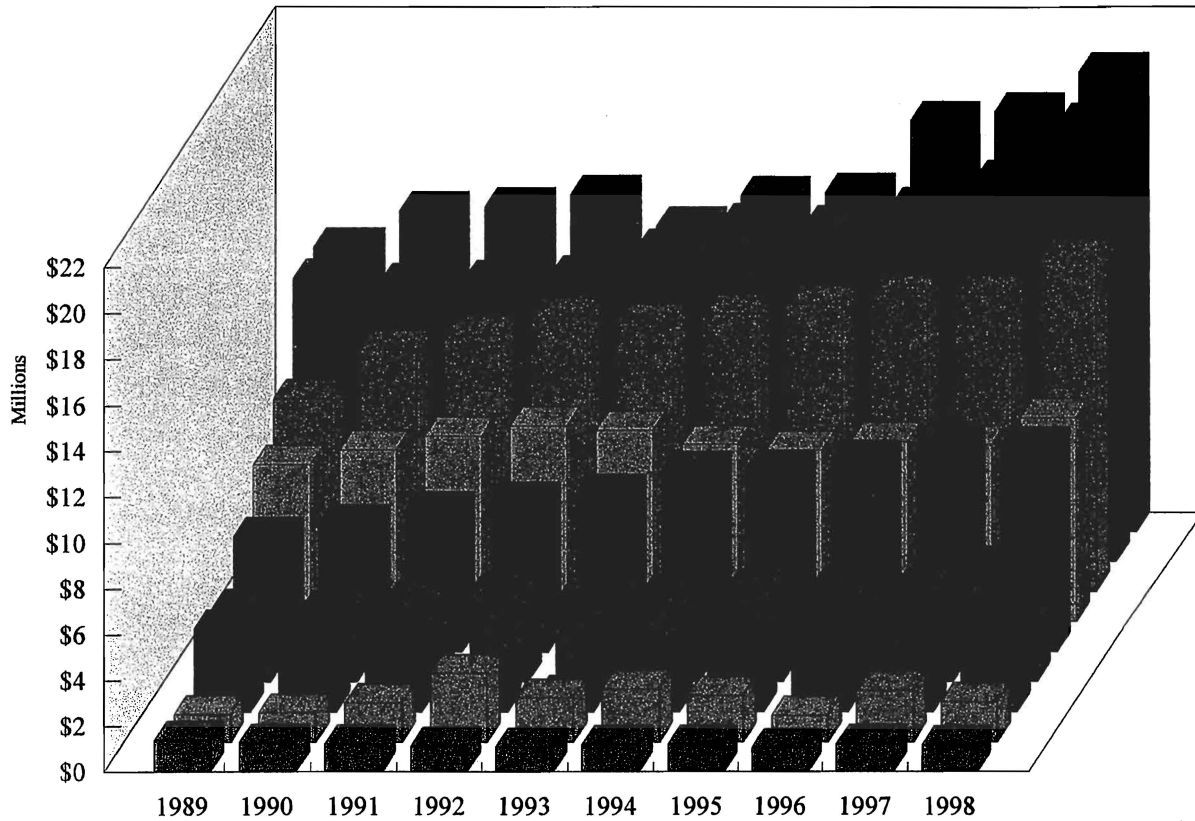
In this section, readers will find comparative information related to the City's revenue sources, expenditures, property tax valuations, levies and collections, general obligation bonded debt, utility revenue debt service, demographics and pension plan funding. Where available, the comparative information is presented for the last ten fiscal years.

In addition, this section presents information related to the City's legal debt margin computation, principal taxpayers, notary and security bond coverages, and other miscellaneous statistics pertaining to services provided by the City.

In contrast to the financial section, the statistical section information is not usually subject to independent audit.

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**CITY OF PALO ALTO  
GENERAL GOVERNMENT REVENUES BY SOURCE  
ALL GOVERNMENTAL FUND TYPES  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**

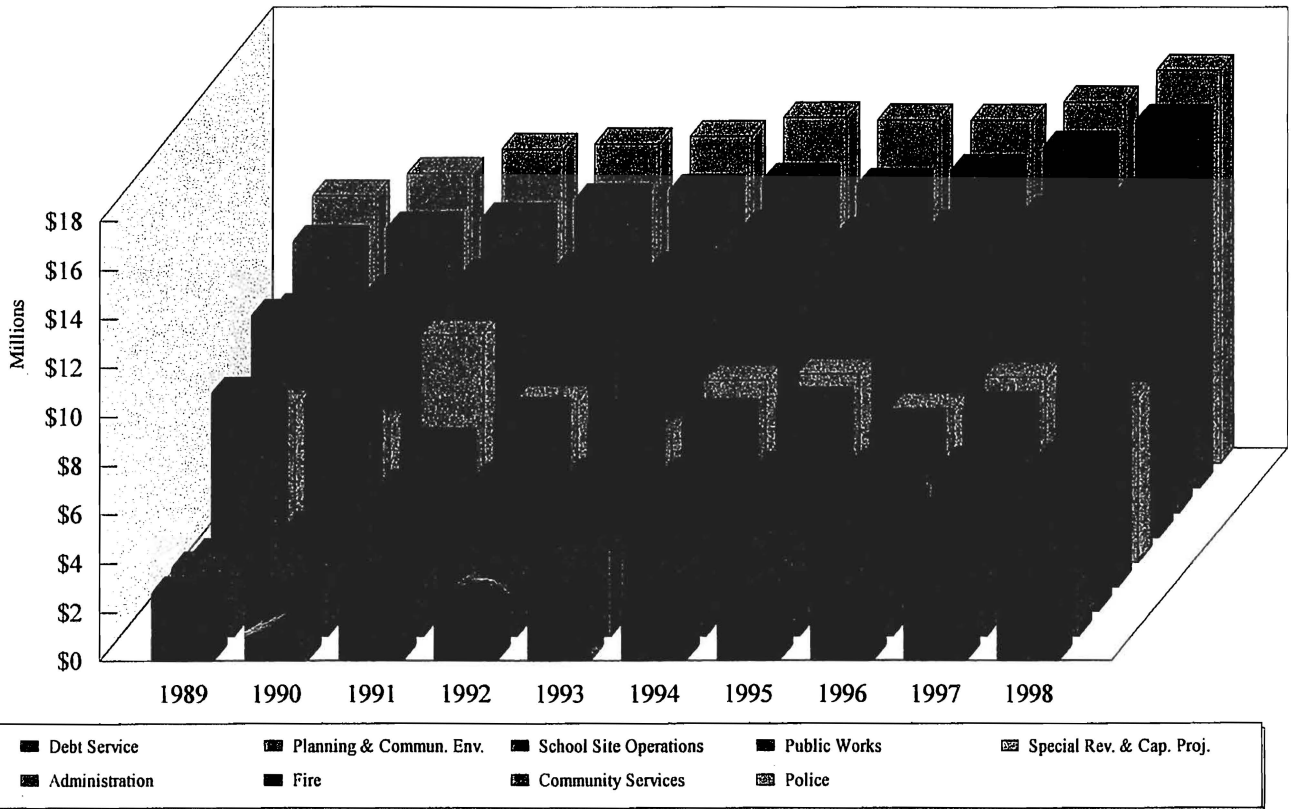


■ Fines, Forfeits & Penalties	■ From Other Agencies	■ Other	■ Fire Prot. & Emerg. Comm. Svcs.	■ Service, Fees & Permits
■ Property Taxes	■ Interest and Rentals	■ Other Taxes	■ Sales Taxes	

Fiscal Year	Sales Taxes	Property Taxes	Other Taxes	Service Fees & Permits	Fines, Forfeits & Penalties	Interest & Rentals	Fire Protection & Emergency Communication Services	From Other Agencies	Other	Total
1989	\$12,409	\$6,887	\$12,376	\$5,024	\$1,383	\$8,444	\$3,227	\$1,193	\$3,628	\$54,571
1990	13,987	7,512	12,158	5,615	1,251	10,567	3,029	1,269	4,038	59,426
1991	14,140	8,109	12,317	6,168	1,222	11,190	3,561	1,711	3,110	61,528
1992	14,692	8,555	12,493	6,570	1,097	12,001	3,908	2,982	1,127	63,425
1993	13,322	8,367	13,663	6,923	1,068	11,725	3,565	1,910	750	61,293
1994	14,635	7,737	14,763	7,915	1,180	12,132	3,884	2,295	2,381	66,922
1995	14,765	7,485	14,682	7,955	1,179	12,528	4,097	2,007	2,938	67,636
1996	17,895	7,854	15,469	8,380	1,032	12,953	4,073	1,144	2,445	71,245
1997	18,277	7,735	16,654	9,087	1,219	12,966	4,193	2,239	4,380	76,750
1998	20,011	8,903	19,150	8,984	1,161	14,525	4,507	1,732	6,354	85,327

NOTES (1) During fiscal year 1993-94 the City implemented GASB Statement No. 14, The Reporting Entity, and as a result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94 has not been restated.

**CITY OF PALO ALTO**  
**GENERAL GOVERNMENT EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES**  
**LAST TEN FISCAL YEARS**  
**(IN THOUSANDS)**

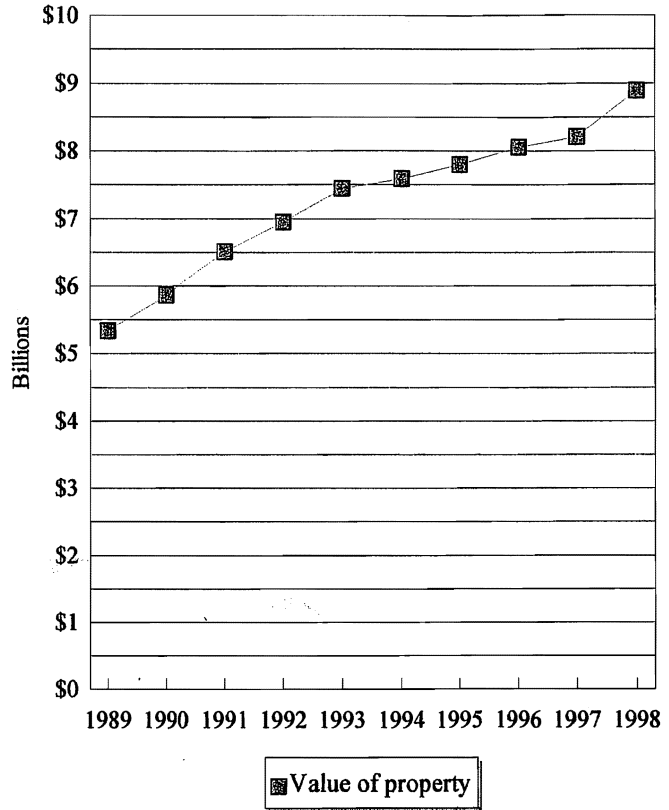
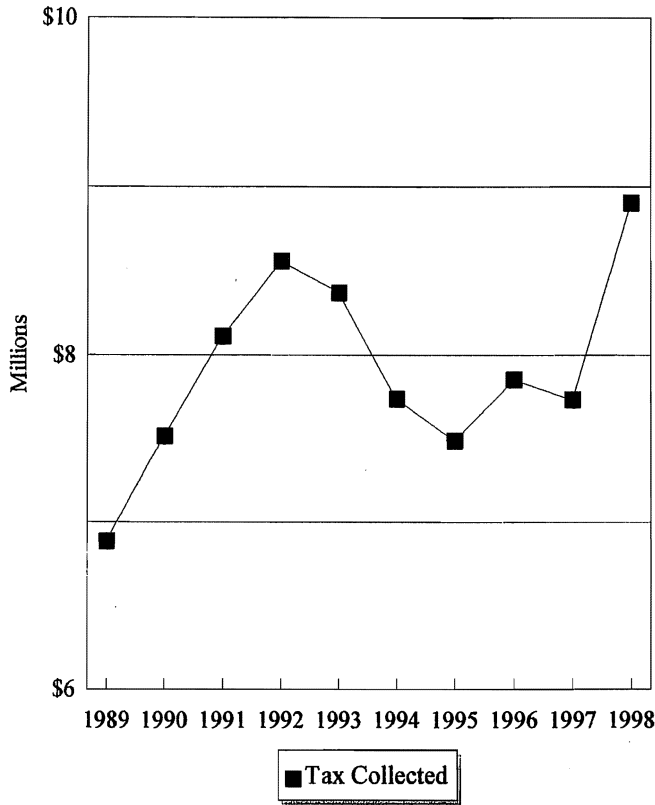


Fiscal Year	Admin- istration (1)	Public Works	Planning & Community Environment	Police	Fire	Community Services	School Site Operations	Special Revenue & Capital Projects	Debt Service	Total
1989	(2) \$9,117	\$7,953	\$2,807	\$10,954	\$8,339	\$10,098	\$2,378	\$6,470	\$2,789	\$60,905
1990	7,788	7,729	3,065	11,881	9,067	10,674	3,434	5,641	2,547	61,826
1991	7,830	5,871	2,881	12,867	9,762	11,025	5,164	9,303	3,139	67,842
1992	8,519	7,129	3,313	13,076	10,027	11,816	5,469	6,609	2,765	68,723
1993	8,809	6,673	3,757	13,380	10,040	12,183	5,632	5,342	2,541	68,357
1994	(3) 9,343	7,058	4,160	14,150	11,718	12,651	5,645	7,450	2,569	74,744
1995	10,340	7,517	3,842	14,058	11,437	12,435	5,884	7,722	2,415	75,650
1996	11,133	6,614	3,901	14,066	11,739	13,019	5,992	6,296	2,490	75,250
1997	11,689	7,339	4,320	14,804	12,292	13,972	6,086	7,581	2,319	80,402
1998	12,987	8,172	4,832	16,093	13,100	15,050	6,298	6,749	2,293	85,574

NOTES: (1) Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk  
City Auditor, Administrative Services and Human Resources.  
(2) Includes litigation settlement of \$1,820.  
(3) During fiscal year 1993-94 the City implemented GASB Statement No. 14, The Reporting Entity, and as a  
result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94  
has not been restated.



**CITY OF PALO ALTO  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**

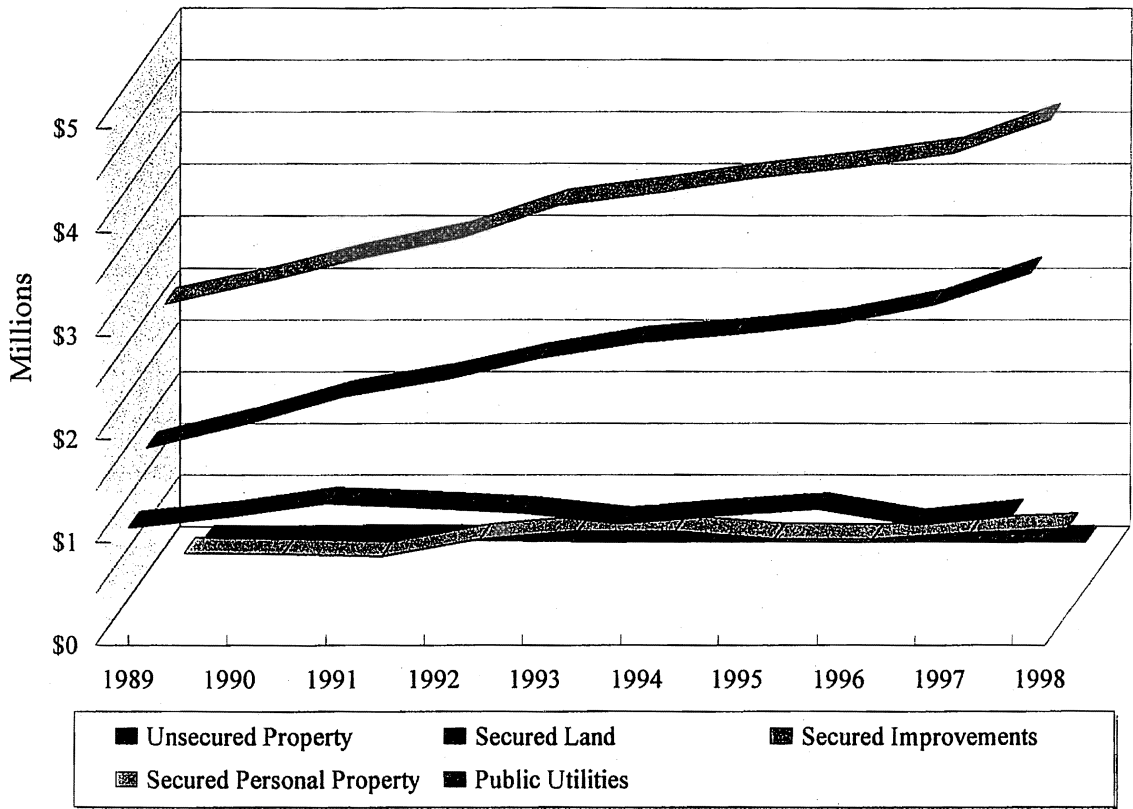


Fiscal Year	Total Tax Levy	Current Tax Collections	Delinquent Tax Collections	Total Property Tax Collected	Assessed Value of Property Subject to Basic County Wide Tax Rate
1989	\$6,869	\$6,726	\$161	\$6,887	\$5,339,581
1990	7,509	7,356	156	7,512	5,864,061
1991	8,192	7,970	139	8,109	6,501,973
1992	8,617	8,372	183	8,555	6,949,429
1993	8,373	8,148	219	8,367	7,443,688
1994	(1) 7,310	7,310	427	7,737	7,592,131
1995	7,485	7,485		7,485	7,795,396
1996	7,854	7,854		7,854	8,058,927
1997	7,735	7,735		7,735	8,206,532
1998	8,903	8,903		8,903	8,885,623

SOURCE: County of Santa Clara Assessor's Office

NOTES: (1) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due. All prior delinquent taxes were also received in this fiscal year. Assessed value of property is considered to be an estimate of full market value.

**CITY OF PALO ALTO  
 ASSESSED VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 (IN THOUSANDS)**



Fiscal Year	Secured				Unsecured Property	Less Exemptions Net of State Aid	Total Assessed Value
	Land	Improvements	Personal Property	Public Utilities			
1989	\$1,670,237	\$2,809,962	\$142,484	\$7,295	\$1,145,899	\$436,296	\$5,339,581
1990	1,897,944	3,019,530	134,389	8,138	1,248,028	443,968	5,864,061
1991	2,168,956	3,253,018	107,494	10,139	1,384,622	422,256	6,501,973
1992	2,324,109	3,446,205	275,237	13,666	1,340,081	449,869	6,949,429
1993	2,533,275	3,758,000	356,415	3,200	1,290,140	497,342	7,443,688
1994	2,687,134	3,876,127	353,803	1,425	1,188,354	514,712	7,592,131
1995	2,764,558	4,018,251	281,479	1,508	1,262,254	532,654	7,795,396
1996	2,865,710	4,129,805	277,037	2,508	1,325,835	541,968	8,058,927
1997	3,045,477	4,259,209	340,073	2,410	1,173,563	614,200	8,206,532
1998	3,353,027	4,585,725	381,091	2,652	1,265,100	701,972	8,885,623

SOURCE:

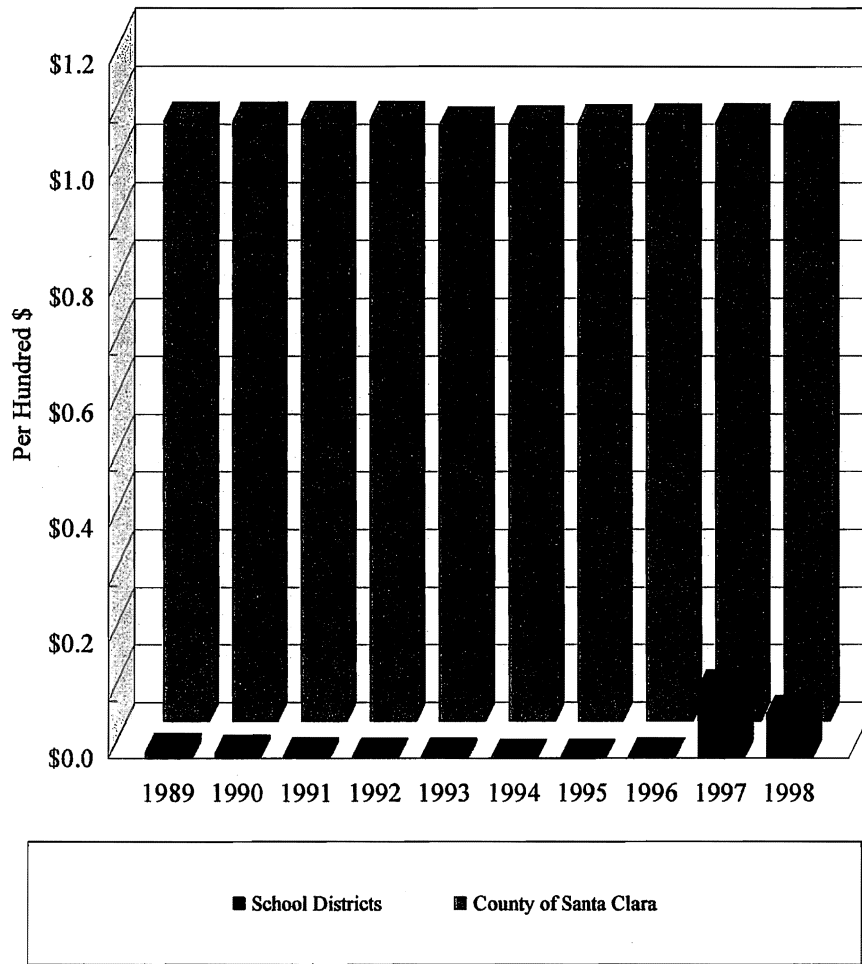
County of Santa Clara Assessor's Office

NOTE:

(1) Beginning in fiscal year 1988-89, Chapter 921 of the Statutes of 1987 requires the establishment of a single county-wide tax rate area for the assignment of the assessed value of certain types of state-assessed utility property and sets forth formulas for the determination of county-wide tax rates for this particular type of property.

\* The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

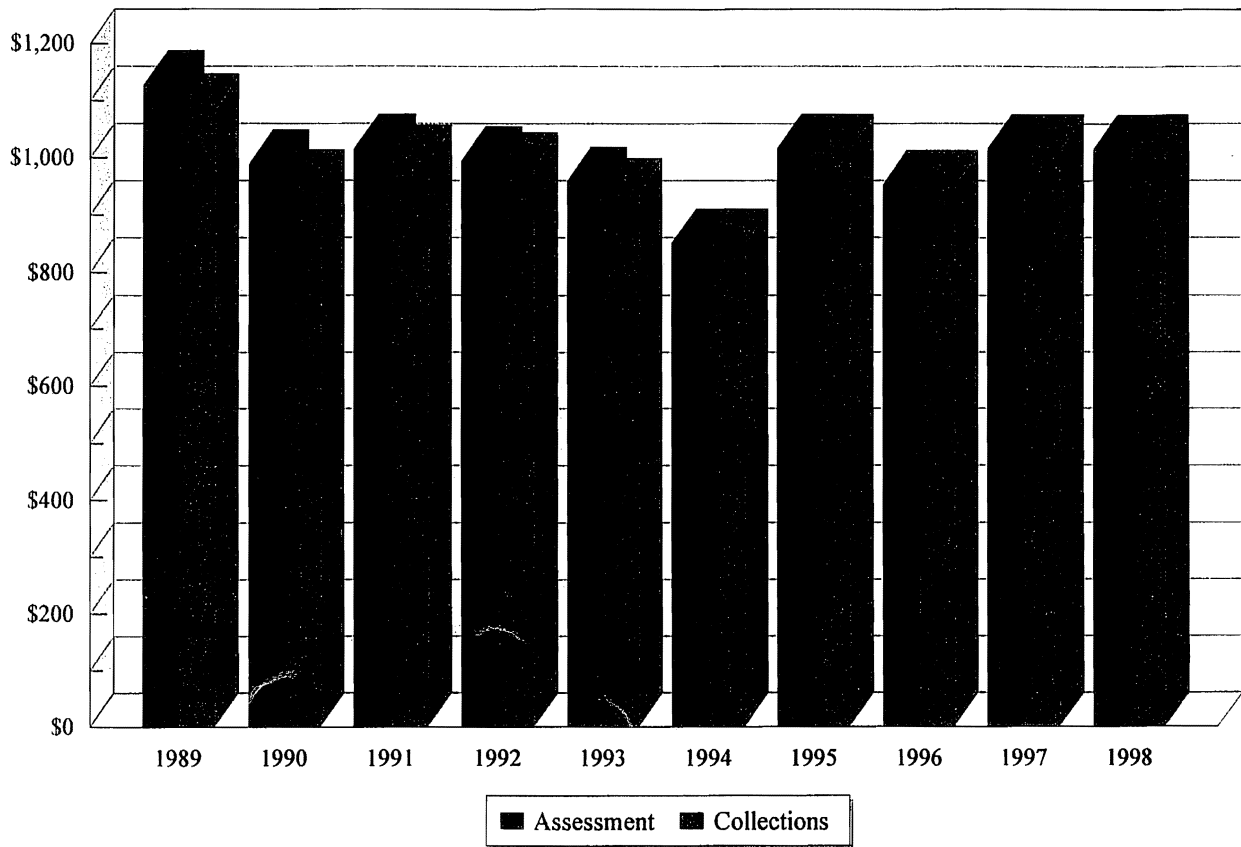
**CITY OF PALO ALTO  
PROPERTY TAX RATES  
ALL OVERLAPPING GOVERNMENTS  
PER \$100 OF ASSESSED VALUE  
LAST TEN FISCAL YEARS**



<u>Fiscal Year</u>	<u>County of Santa Clara</u>	<u>School Districts</u>	<u>Total</u>
1989	1.0380	\$0.0110	\$1.0490
1990	1.0380	0.0080	1.0460
1991	1.0390	0.0040	1.0430
1992	1.0390	0.0020	1.0410
1993	1.0290	0.0030	1.0320
1994	1.0310	0.0000	1.0310
1995	1.0330	0.0000	1.0330
1996	1.0340	0.0030	1.0370
1997	1.0340	0.1210	1.1550
1998	1.0388	0.0764	1.1152

Source: County of Santa Clara, Tax Rates and Information

**CITY OF PALO ALTO  
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**



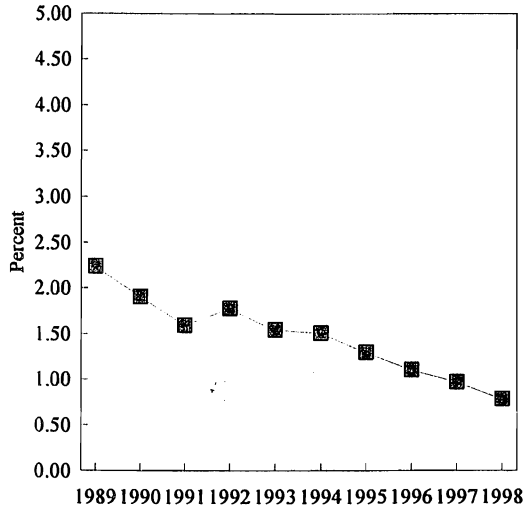
Fiscal Year	County Assessment Due	Current Assessment Collected	Delinquent & Penalties Collected	Special Assessment Billings and Collections
1989	\$1,127	\$1,086	\$31	\$1,117
1990	989	954	36	990
1991	1,016	997	23	1,020
1992	994	984	14	998
1993	959	939	11	950
1994	850	850	14	864
1995	1,016	1,016		1,016
1996	952	952		952
1997	1,016	1,016		1,016
1998	1,015	1,015		1,015

**SOURCE:**

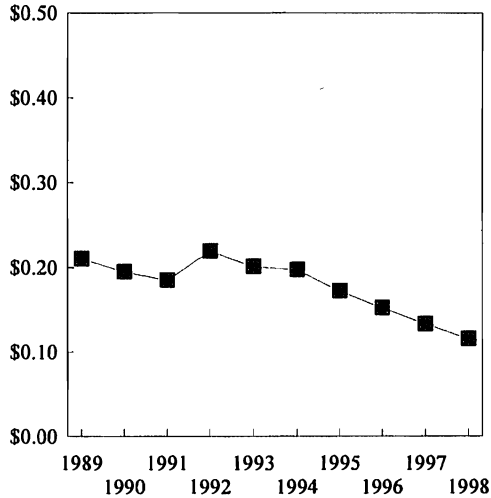
**NOTE:**

(1) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the City the full assessment due. Payment for all prior delinquencies was also received in this fiscal year.

**CITY OF PALO ALTO**  
**RATIO OF NET GENERAL OBLIGATION BONDED DEBT**  
**TO ASSESSED VALUE AND NET GENERAL OBLIGATION**  
**BONDED DEBT PER CAPITA**  
**LAST TEN FISCAL YEARS**  
**(IN THOUSANDS)**



■ Debt per Assessed Value



■ Debt per Capita

Fiscal Year	Population	Assessed Value	Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
1989	56,950	\$5,339,581	\$11,978	0.224%	\$0.21
1990	57,400	5,864,061	11,198	0.191%	0.20
1991	56,000	6,501,973	10,397	0.160%	0.19
1992	56,330	6,949,429	12,376	0.178%	0.22
1993	57,300	7,443,688	11,541	0.155%	0.20
1994	58,100	7,592,131	11,498	0.151%	0.20
1995	58,580	7,795,396	10,103	0.130%	0.17
1996	58,500	8,058,927	8,916	0.111%	0.15
1997	59,900	8,206,532	7,981	0.097%	0.13
1998	60,500	8,885,623	7,026	0.079%	0.12

CITY OF PALO ALTO  
 COMPUTATION OF LEGAL DEBT MARGIN  
 JUNE 30, 1998  
 (In Thousands)

1997-98 ASSESSED VALUATION:		<u>\$8,885,623</u>
Debt limit - 15% of assessed value		\$1,332,843
Amount of debt applicable to debt limit:		
General revenue bonds	\$625	
Certificates of participation	5,215	
Capital lease obligations	1,186	
Special assessment debt with governmental commitment	<u>5,685</u>	
Total	12,711	
Less amount of debt not applicable to debt limit	<u>0</u>	
Total amount of debt applicable to debt limit		<u>12,711</u>
Legal debt margin		<u>\$1,320,132</u>

- Note: (1) The above does not include debt recorded in the Enterprise Funds because such debt is not subject to the legal debt margin.
- (2) Special assessments debt excludes Cambridge Ave. parking debt because there is no government commitment. (\$1,885)

CITY OF PALO ALTO  
 COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT  
 JUNE 30, 1998  
 (In Thousands)

1997-1998 Assessed Valuation    \$ 8,885,623

	Percentage Applicable To City of Palo Alto	June 30, 1998 Bonded Debt
Direct and Overlapping Bonded Debt		
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Palo Alto Unified School District	89.784	\$110,672
Other School Districts and School Authorities	5.286	1,710
City of Palo Alto Special Assessment Bonds	100.000	5,685 (1)
Special Districts	13.508	4,456
Total overlapping tax and assessment debt		122,523
DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT:		
Santa Clara County General Fund Obligations	7.638	40,583
Santa Clara County Board of Education Certificates of Participation	7.638	1,578
Other School Districts and School Authorities	22.533	8,722
City of Palo Alto General Fund Obligations	100.00	7,026
Santa Clara Valley Water District Certificates of Participation	7.638	10,150
Other Special Districts, (net of El Camino Hospital - 100% self supporting)	13.508	6,294
Total gross direct and overlapping lease obligation debt		74,353
NET COMBINED TOTAL DEBT		\$196,876

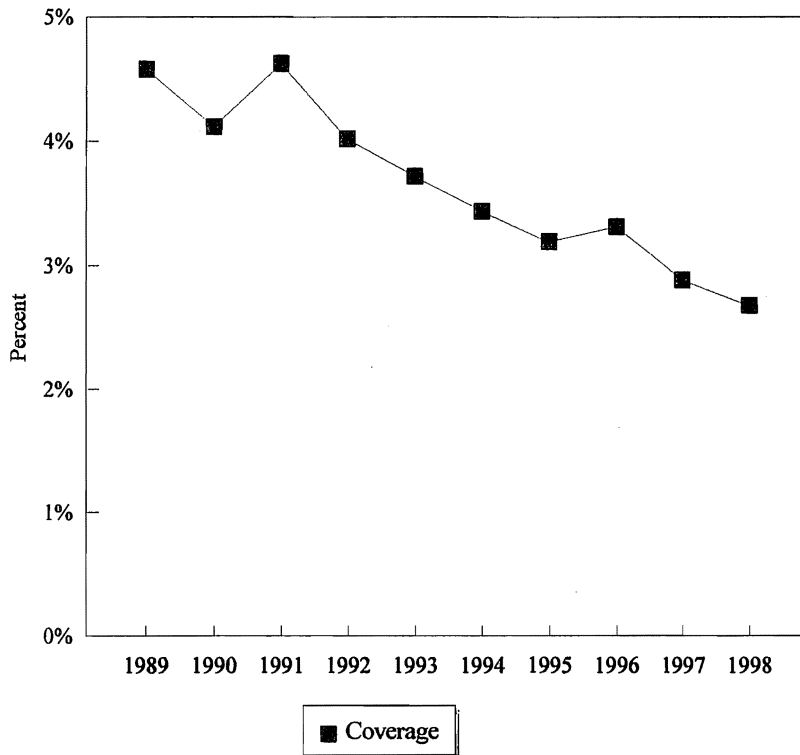
Note: (1) Excludes Cambridge (California Avenue) parking special assessment bonds

Ratios to Assessed Valuation:

Gross Direct Debt(\$7,026)	0.08%
Total Gross Debt	2.24%
Total Net Debt	2.24%

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO  
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES  
 FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES  
 LAST TEN FISCAL YEARS  
 (IN THOUSANDS)**

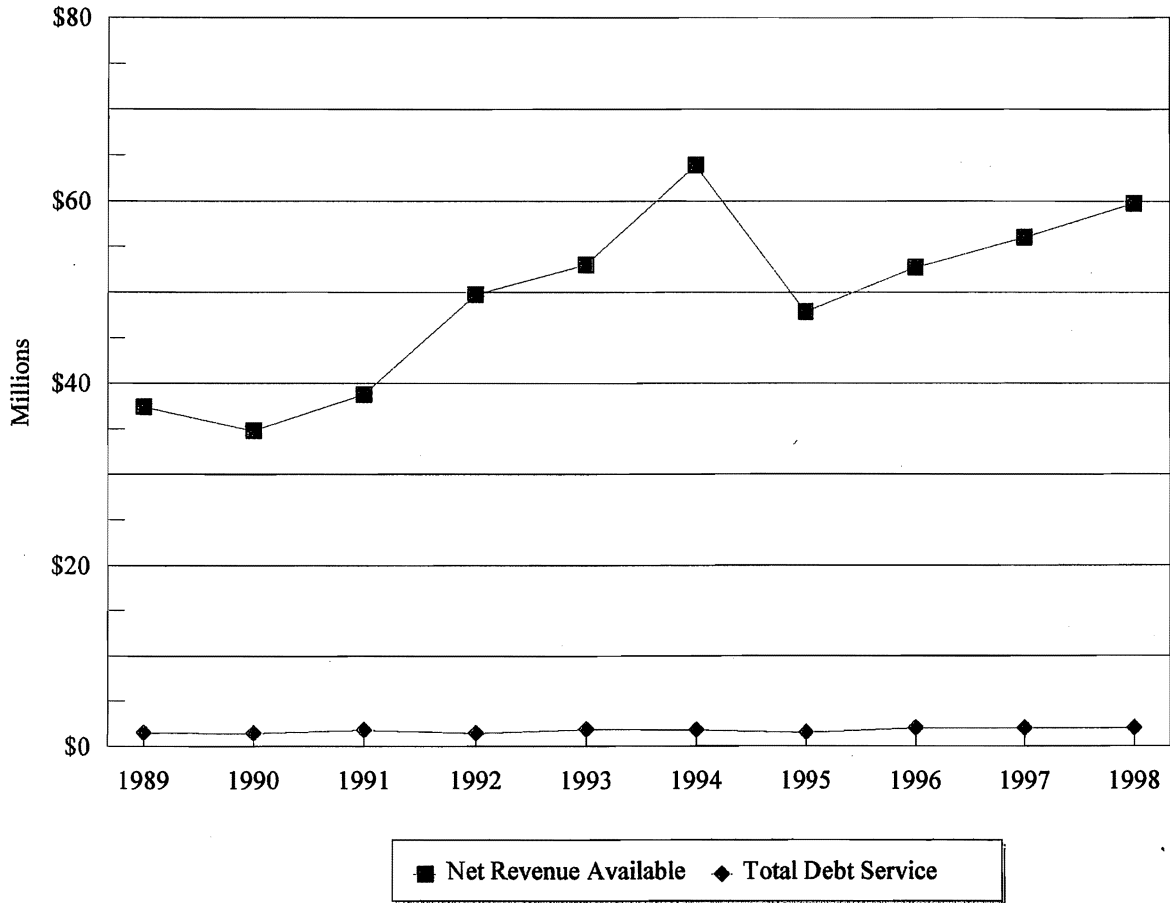


Fiscal Year	Total General Expenditures	Debt Service			Coverage
		Principal	Interest	Total	
1989	\$60,905	\$1,113	\$1,676	\$2,789	4.58%
1990	61,826	1,112	1,435	2,547	4.12%
1991	67,842	1,289	1,850	3,139	4.63%
1992	68,723	1,151	1,614	2,765	4.02%
1993	68,357	1,274	1,267	2,541	3.72%
1994	74,744	1,305	1,264	2,569	3.44%
1995	75,650	1,245	1,170	2,415	3.19%
1996	75,250	1,365	1,125	2,490	3.31%
1997	80,402	1,355	964	2,319	2.88%
1998	85,574	1,405	888	2,293	2.68%

NOTE: (1) Includes general, special revenue, debt services and capital project funds.



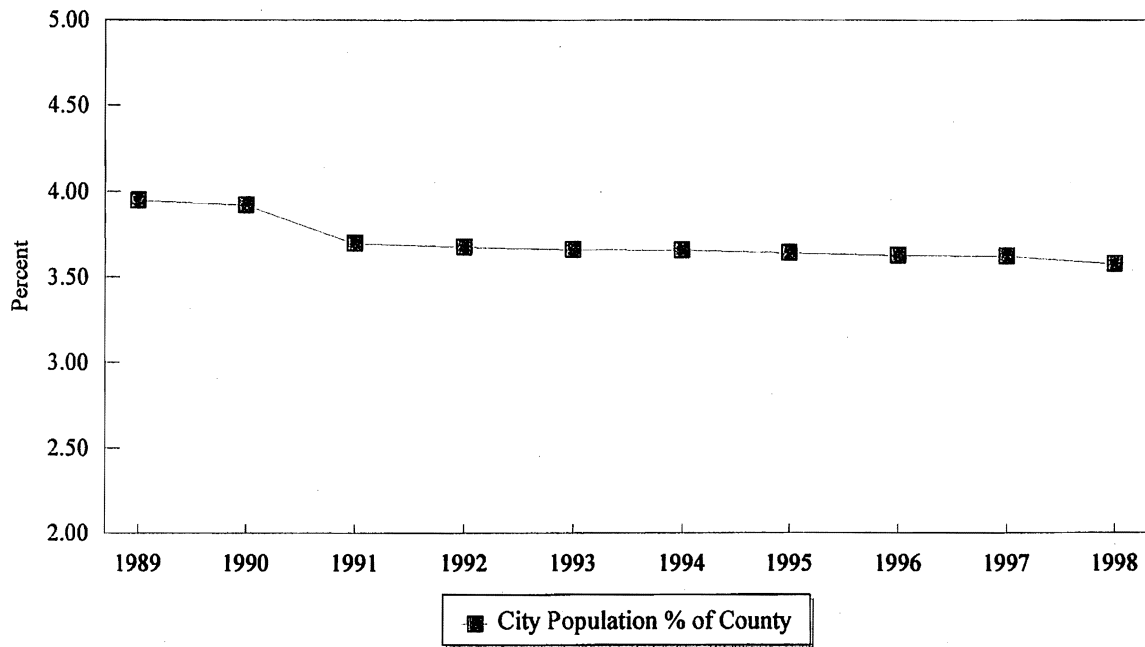
**CITY OF PALO ALTO**  
**REVENUE BOND COVERAGE**  
**WATER, ELECTRIC, GAS, WASTEWATER COLLECTION,**  
**WASTEWATER TREATMENT AND STORM DRAINAGE FUNDS**  
**LAST TEN FISCAL YEARS**  
**(IN THOUSANDS)**



Fiscal Year	Gross Revenue	Direct Operating Expenditures (1)	Net Revenue Available for Debt Service (2)	Debt Service		Requirements	
				Principal	Interest	Total	Coverage
1989	\$97,790	\$60,344	\$37,446	\$534	\$1,011	\$1,545	24.24
1990	104,948	70,090	34,858	565	935	1,500	23.24
1991	109,115	70,302	38,813	950	922	1,872	20.73
1992	115,659	65,861	49,798	690	829	1,519	32.78
1993	119,274	66,212	53,062	735	1,159	1,894	28.02
1994	132,317	68,371	63,946	875	945	1,820	35.14
1995	124,537	76,693	47,844	555	997	1,552	30.83
1996	120,828	68,096	52,732	755	1,308	2,063	25.56
1997	133,081	77,107	55,974	801	1,263	2,064	27.12
1998	144,195	84,415	59,780	840	1,214	2,054	29.10

NOTES:  
(1) 1993-94 excludes electric rebate.  
(2) Excludes depreciation and amortization expense.

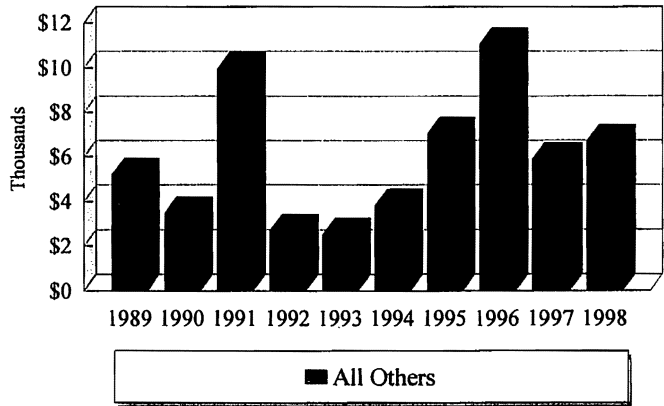
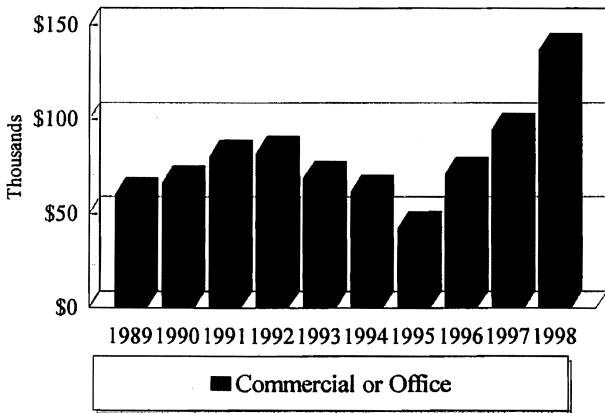
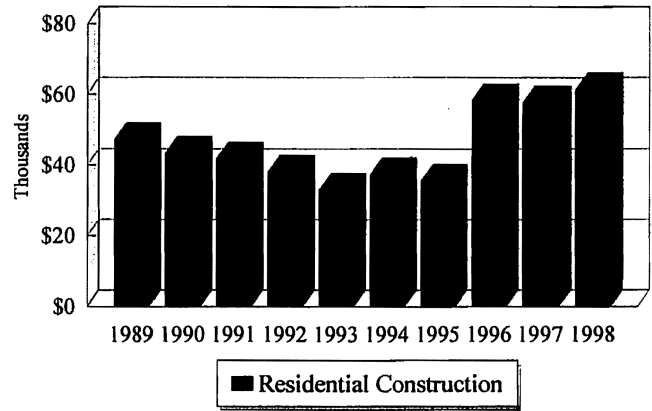
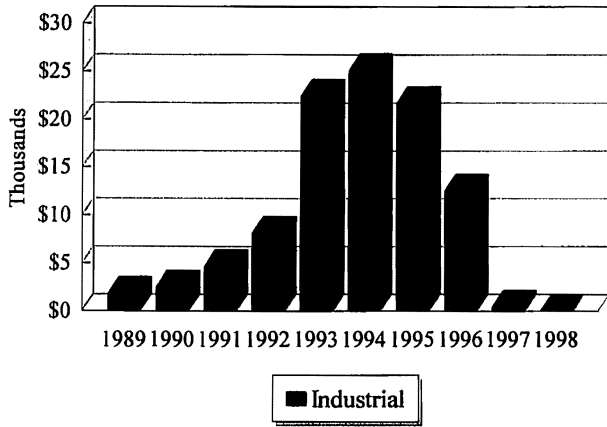
**CITY OF PALO ALTO  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**



Fiscal Year	City Size		City Population	County Population (1)	City Population % of County (2)	School Population (3)	Unemployment Rate
	Square Miles	Street Miles					
1989	25.98	193.12	56,950	1,440,900	3.95%	7,477	2.60%
1990	25.98	193.12	57,400	1,463,500	3.92%	7,443	2.30%
1991	25.98	193.12	56,000	1,513,100	3.70%	7,496	3.90%
1992	25.98	193.12	56,330	1,531,700	3.68%	7,756	4.50%
1993	25.98	193.12	57,300	1,563,800	3.66%	7,970	3.80%
1994	25.98	193.12	58,100	1,587,800	3.66%	8,334	3.30%
1995	25.98	193.12	58,580	1,607,700	3.64%	8,419	2.80%
1996	25.98	193.12	58,500	1,612,300	3.63%	9,122	1.90%
1997	25.98	193.12	59,900	1,653,100	3.62%	9,407	1.50%
1998	25.98	193.12	60,500	1,689,900	3.58%	9,719	1.50%

Sources: (1) State Department of Finance  
(2) Palo Alto Unified School District  
(3) State Employment Development Office

**CITY OF PALO ALTO  
CONSTRUCTION ACTIVITY  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**



Fiscal Year	Property Values	Industrial		Commercial or Office		Residential		All Others	
		Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation
1989	\$5,339,581	3	\$182	316	\$59,835	1,130	\$47,334	65	\$5,192
1990	5,864,061	7	249	331	66,373	1,195	43,378	53	3,474
1991	6,501,973	6	470	342	79,998	1,088	41,862	70	9,935
1992	6,949,429	11	814	355	82,088	1,087	38,101	63	2,692
1993	7,443,688	7	2,244	388	68,923	1,079	33,065	65	2,506
1994	7,592,131	23	2,509	377	61,492	1,081	37,284	96	3,823
1995	7,795,396	20	2,169	364	42,302	1,032	35,563	72	7,055
1996	8,058,927	10	1,256	400	71,015	1,194	58,262	89	11,052
1997	8,206,532	2	41	375	94,444	1,095	57,617	106	5,874
1998	8,885,623	0	0	374	136,761	1,154	61,316	80	6,704

SOURCE: Planning and Community Environment Department  
City of Palo Alto

CITY OF PALO ALTO  
INSURANCE COVERAGE  
June 30, 1998

TYPE	COVERAGE (Deductible)	LIMITS	COMPANY	EXPIRATION DATE
PROPERTY LOSS				
Blanket	All real & personal property (\$10,000 deductible)	\$182,934,542	Federal Insurance Company	7/1/98
Boiler & Machinery	All real & personal property: (Deductibles are: \$50,000 - all distribution transformers \$10,000 - all other objects)			
FINANCIAL LOSS				
Employee Blanket	Position bond - faithful performance per loss (\$5,000 deductible)	\$1,000,000	Hartford Fire Insurance	7/1/98
Trustees Errors and Omissions	Trustees errors and omissions (\$15,000 deductible)	\$1,000,000	National Union Fire Insurance	7/1/98
UMBRELLA EXCESS				
	City is a member of an insurance pool participating with a number of other California cities. (\$1,000,000 self insured retention)	\$9,000,000 per occurrence \$27,000,000 aggregate	ACCEL Group	7/1/98
	First excess layer (\$10,000,000 deductible)	\$10,000,000 per occurrence	Insurance Company of Pennsylvania	7/1/98
SPECIAL LIABILITY				
Volunteers Accident	Each Occurrence Medical - Each Person (\$25 deductible)	\$5,000	North Atlantic Life Insurance Company	1/1/99
Special Events	Bodily Injury	\$1,000,000 per occurrence	General Star Indemnity Co.	1/1/01
EMPLOYEE BENEFIT				
Travel Accident	Indemnity, based on salary	\$1,500,000 per accident	Life Insurance Co. of North America	6/1/98
EMPLOYEE HEALTH PLAN	The City participates in the California Public Employees' Medical and Health Care Act (PEMHCA) program to provide medical benefits to employees and retirees.			
WORKERS' COMPENSATION	City is self-insured for first \$500,000 of liability			
EXCESS WORKERS' COMPENSATION	Excess Workers' Compensation Employers Liability	\$2,000,000	National Union Fire Insurance	7/1/98

CITY OF PALO ALTO  
TOP TEN PROPERTY TAXPAYERS  
JUNE 30, 1998  
(In thousands of dollars)

	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percent of Total Assessed Valuation</u>
Leland Stanford Jr. University	University and Ancillary	\$1,483,270	16.69
Space Systems/Loral, Inc.	Research and Development	179,819	2.02
Sun Microsystems, Inc.	Computers and Electronics	51,332	0.58
Harbor Investment Partners	General Industrial	42,000	0.47
S I Palo Alto, Inc.	Offices, Banks and Clinics	41,511	0.47
Digital Equipment Corporation	Computers and Electronics	37,954	0.43
Cowper-Hamilton Associates	Offices, Banks and Clinics	36,403	0.41
University Avenue Partners and Associates	Offices, Banks and Clinics	19,889	0.22
Maytai Investments, Inc.	Offices, Banks and Clinics	15,763	0.18
Stanford Square Limited Partners	Offices, Banks and Clinics	15,700	0.18
Totals		<u>\$1,923,641</u>	<u>21.65</u>

Source: Center for Urban Analysis, County of Santa Clara

CITY OF PALO ALTO  
MISCELLANEOUS STATISTICS  
JUNE 30, 1998

DISCOVERED	1769	NUMBER OF HOUSING UNITS	25,701
DATE OF INCORPORATION	April 16, 1894	COMMERCIAL AND INDUSTRIAL SPACE	27.1 Million Square Feet
INCORPORATED AS CHARTER CITY	July 1, 1909	MUNICIPAL UTILITY PLANTS:	
FORM OF GOVERNMENT	Council-Manager	WATER	
POPULATION	60,500	Million CCF Sold, 19,298 Accounts	5.8
LAND AREA	25.98 Square Miles	Miles of Mains	215
CITY MAINTAINED TREES	39,200	WASTEWATER	
<u>POLICE PROTECTION:</u>		Million Gallons Processed	10,339
NUMBER OF STATION(S)	1	Accounts	21,951
NUMBER OF REGULAR EMPLOYEES	170	Miles of Sanitary Sewer Lines	219
NUMBER OF POLICE PATROL VEHICLES	26	ELECTRIC	
<u>FIRE PROTECTION:</u>		Million KWH Sold, 27,641 Accounts	1,121
NUMBER OF STATION(S)	8	Pole Miles, 200 Trench Miles	185
NUMBER OF REGULAR EMPLOYEES	122	GAS	
NUMBER OF FIRE APPARATUS	24	Million Therms Sold, 23,327 Accounts	37
NUMBER OF FIRE HYDRANTS	1,500	Miles of Gas Mains	170
<u>COMMUNITY SERVICES</u>			
ACRES- DOWNTOWN PARKS	142		
ACRES- OPEN SPACE	3,997		
PARKS	36		
GOLF COURSE	1		
TENNIS COURTS	51		
ATHLETIC CENTER	1		
COMMUNITY CENTERS	4		
THEATERS	3		
CULTURAL CENTER	1		
JUNIOR MUSEUM AND ZOO	1		
SWIMMING POOLS	3		
NATURE CENTERS	2		
LIBRARIES	6		